Korean Insurance Industry 2008

Department of Insurance Trends Analysis
Korea Insurance Research Institute

Sep. 2008

This page intentionally left blank.

Foreword

Dongmin Na

President
Korea Insurance Research Institute

Recently, we have been facing rapid changes and challenges in the economic and financial environment that surrounds the Korean insurance industry due to high food and oil prices and the subprime mortgage crisis in the United States. With this economic environment around the world, the Korean economy in 2008 is suffering from high interest rates, high exchange rates, a bearish stock market, and a slowdown in gross domestic product (GDP). As such, a slowdown in the Korean insurance industry may also be unavoidable, and thus it is important and meaningful to review the Korean insurance industry in fiscal year 2007.

Despite the changes and challenges in the economic and financial environment, the growth rate of total premium volume in the Korean insurance industry was 13.6 percent with a total premium of 109.077 trillion Won in fiscal 2007, while the growth rate of real GDP (nominal GDP) was only 5.0 percent (6.3 percent). The driving force of such a surprising growth rate of 13.6 percent was a rapid increase in the sales of variable insurance, the growth rate of which was 50.9 percent, although it might be expected to decrease with the bearish stock market in fiscal 2008. Unlike this year, the rapid increase in variable insurance was mainly due to a bullish stock market and an increase in demand for investment products in urban households in fiscal 2007. Also, the increase in variable insurance led to a significant surge in the growth rate of life insurance by 4.9 percentage points over the previous year, while the growth rate in non-life insurance decreased by 0.1 percentage point.

Meanwhile in preparation for such changes and challenges, the Korean government has been doing researches to consolidate the financial business laws since 2003. As a result, aiming to be enforced beginning 2009, it established the Capital Market Consolidation Act in September 2007 by combining the laws associated with capital market and financial investment business. In terms of mid or long run, the government is also considering consolidation of the whole financial business law because it is required to cope with the economic environment of competitions accelerating sharply between financial sectors. As a response to the Consolidation Act, it is expected to newly introduce definitions of insurance products, differentiations of insurance consumers, regulations for insurance business, and so on to the insurance business law to be revised in 2008.

Together with the Consolidation Act, the Korean insurance industry keeps refining and developing existing and new business models so that it can cope with the rapid changes and challenges in the financial and insurance environment, and understand the diversity in the financial sector amidst global competition. Finally, we should recognize that it is high time to pay more attention to foreign insurance markets because the domestic insurance market is already saturated with competition. By doing so we should find a new growth engine with a mid or long-term strategy.

Under this situation, this book is intended to discuss recent developments in the Korean insurance industry, economy as well as financial environment that surround the industry. We hope that this book will be useful to readers, particularly foreign and domestic insurers and investors.

I would like to express my gratitude to all the members in the Department of Insurance Trends Analysis for their hard work in preparing this book. Appreciation must also be extended to Ms. Eugene Y. Jeong who kindly read this book and provided useful comments.

Korean Insurance Industry 2008

Contents

This page intentionally left blank.

Korean Insurance Industry 2008

General information

Demographic and social indicators
Population
Population structure
Life expectancy

Economic development

Economic indicators
Gross domestic products
Balance of current account
Employment
Inflation
Interest rate
Exchange rate
Stock price

Country profile

This page intentionally left blank.

Demographic and social indicators

Population

Table 1 Demographic and social indicators

Country	Total population (millions) (2007)	Projected population (millions) (2050)	Ave. pop. growth rate (2005- 2010)	Total fertility rate (2007)	Under-5 mortality M/F	% of urban (2007)	Urban growth rate (2005-2010)
World	6,615.90 100.0%	9,075.90 100.0%	1.1%	2.56%	80/77	50%	2.0%
M.D.R*	1,217.50 18.4%	1,236.20 13.6%	0.2%	1.58%	10/9	75%	0.5%
L.D.R**	5,398.40 81.6%	7,839.70 86.4%	1.3%	2.76%	87/85	44%	2.5%
S. Korea	48.1 0.7%	44.6 0.5%	0.3%	1.19%	5/5	81%	0.6%

Source: State of world population 2007, UNFPA
* : More-developed regions include North America, Japan, Europe, Australia, and New Zealand.
**: Less-developed regions include Africa, Latin America, Caribbean, and Asia excluding Japan.

According to the World Bank report, “State of World Population 2007”, the world population is likely to increase by 2.5 billion over the next 42 years, passing from the current 6.6 billion to 9.1 billion in 2050. The increase will be absorbed mostly by the less developed regions, whose population is projected to rise from 5.4 billion in 2007 to 7.8 billion in 2050. In contrast, the population of the more developed regions is expected to remain largely unchanged at 1.2 billion.

In 2007 South Korea showed a population of 48 million accounting for 0.7 percent of the world’s population and the population in 2050 is expected to rather decrease to 44 million.

The reason is that the fertility rate is very low. Although Korea belongs to less-developed regions in the table, the average population growth rate and fertility rate come under the head of more-developed regions. The under five-year mortality rates are also lower than the more developed regions.

In terms of urbanization, Korea has been urbanized as much as 81 percent in 2007. And the urban growth rate is not likely to surge next several years.

These facts exhibit that Korea shares demographic and social characteristics of the more-developed regions.

Population structure

Table 2 Summary of population statistics by age group

Age range	2001		2006		2007	
	Number (Thousand)	%	Number (Thousand)	%	Number (Thousand)	%
0 to 14	9,854	20.8	8,996	18.6	8,722	18.0
15 to 64	33,925	71.6	34,715	71.9	34,888	72.0
Over 65	3,578	7.6	4,586	9.5	4,797	9.9
Total	47,357	100.0	48,297	100.0	48,456	100.0

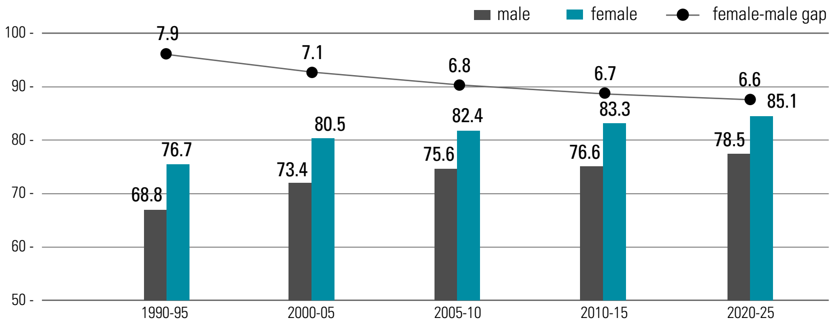
Source: Population Prospects, Korea Statistical Information Service.

Korea's population is rapidly aging. As of July 1, 2007, the population of Korea was 48,456,000, up 0.33 percent over the previous year. In 2007 the youth population aged between 0 and 14 accounted for 18.0 percent of the total population, decreasing by 2.8 percentage points from 20.8 percent in 2001. The elderly population aged 65 and over accounted for 9.9 percent, which increased by 2.3 percentage points from 7.6 percent in 2001. On the other hand, the working-age population between 15 to 64 occupied 72. 0 percent and has not changed much.

The median age recorded 36.1 years in 2007, which rose by 0.7 year from 35.4 years in 2006 and by 14.3 years from 21.8 years in 1980. The ageing index marked 55.1 in 2007, 4.9 times from 11.2 in 1980.

Life Expectancy

Figure 1 Life expectancy



Source: Korea Statistical Information Service.

The life expectancy at birth increased by 17.3 years from 61.9 years in 1970 to 79.2 years in 2006. The life expectancy at birth for males rose by 17.0 years from 58.7 years in 1970 to 75.7 years in 2006. The life expectancy at birth for females grew by 16.8 years from 65.6 years in 1970 to 82.4 years in 2006.

The dramatic increase in life expectancy is the result of improvement in medical technology and growing interest in health. According to the report of the Korea National Statistical Office in 2008, Korean men and women are expected to live on average about 76.6 and 83.3 years in 2010-15; and 79.4 and 85.9 years in 2025-2030.

The gap between male and female life expectancy, although it remains large, has decreased from 7.9 years in 1990-1995 to 6.8 years in 2005-2010.

The mortality rate also decreased to 5.4 people per 1,000 in 2005-2010 compared to 7.3 in 1970-1975. Most Koreans are provided with the benefits of public medical insurances.

Economic development

Korea's economy is facing challenges in the era of globalization. While exports have shown resilience, a slowdown in the global economic growth is likely to limit further export gains and constrain investment during the rest of the year. High global food and fuel prices are expected to weigh on consumption and are contributing to rapidly rising prices. As a result, economic growth is expected to moderate to 4.1 percent this year, while weaker domestic demand and stabilizing commodity prices should help slow inflation later this year. This outlook is subject to substantial uncertainty with the remaining possibility of a deeper global slowdown, a comeback to more volatile global financial conditions, or still high oil prices.

In this context, macroeconomic policies should focus for now on controlling inflation. Korea's flexible exchange rate regime, with intervention limited to smoothing excessive volatility, has served the country well in the past and continues to be appropriate.

While the Korean financial system remains healthy, the ongoing global financial turmoil has raised some concerns. The international credit market has underlined that banks reliant on wholesale funding may be exposed to greater liquidity risk. Korean banks are beginning to diversify their funding sources and supervisors are increasingly focusing on limiting such risks. Short-term external debt has risen sharply in recent years, as a counterpart to hedging activity, and more recently, with foreign purchases of sovereign bonds. This debt should be monitored, but its sources and uses are very different from those a decade ago, and risks remain moderate.

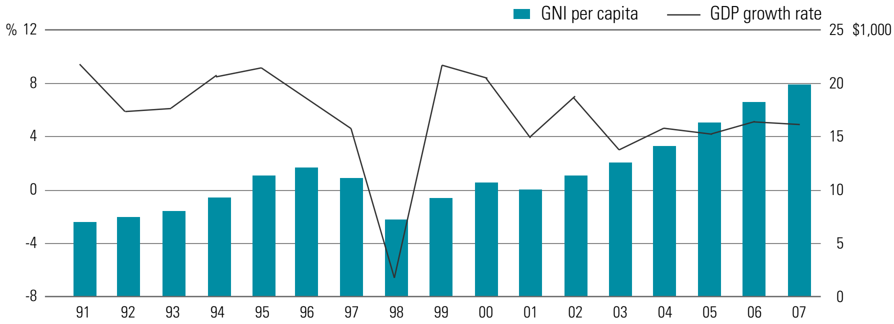
Looking ahead, structural changes to the financial sector will present both challenges and opportunities. Increased financial sector competition, in light of the legal framework taking effect in 2009, should contribute to growth, but will require a financial oversight to meet new regulatory challenges, including risks from more complex institutions and products.

Plans for any tax cuts should be in the context of a broader tax reform plan that concretely addresses long-run fiscal pressures, notably those associated with an aging population.

Economic indicators

Gross domestic products

Figure 2 GDP growth rate and GNI per capita



Source: Bank of Korea.

After the financial crisis in 1997 and 1998, the growth rate in GDP fluctuated in Korea. It registered 8.5 percent in 2000, but plunged to 3.8 percent with the worldwide recession in 2001. It rebounded again to 7.0 percent underpinned by the boom in exports and domestic construction in 2002, but decreased to 4.7 and 4.0 percent with domestic market recession in 2004 and 2005, respectively.

GDP in Korea grew by 5.0 percent in 2007, a slight decrease from the prior year's 5.1 percent. In 2007 the Korean economy witnessed the stable increase in domestic demand and robust exports, sustaining the upward trend. However, inflationary pressure was on the rise, too.

In 2008, despite continuing export gains, the Korean economy saw domestic demand deteriorating and inflationary pressures mounting.

Private consumption (preliminary GDP) in the second quarter of 2008 gained merely by 2.4 percent year-on-year and fell by 0.1 percent compared to the preceding quarter, the first loss in 4 years since the second quarter of 2004.

In June 2008, consumer goods sales decreased by 1.0 percent year-on-year, the first decline since July 2006, and they dropped 4.3 percent month-on-month after losing 0.7 percent in the previous month. As sluggish sales of cars and cyclical semidurable goods such as apparel have continued, those of nondurable goods including vehicle fuels have followed suit.

Soaring oil prices have been on the decline since mid July, but it will take some time until consumer prices stabilize and consumer confidence bounces back.

Facility investment in the second quarter of 2008 (preliminary GDP) remained lackluster, gaining by 0.8 percent year-on-year and by 1.0 percent compared to the first quarter of 2008.

The facility investment (estimated) in June returned to an upward path, as increased investments (up 7.3%) in machinery such as electric and electronic equipment and telecommunications devices offset decreased investments (down 13.5 %) in transportation equipment.

Leading indicators such as machinery orders, machinery imports, and the BSI (Business Survey Index) indicate that facility investment (estimated) in July would not improve to a significant degree.

Domestic machinery orders in June jumped up in the public sector, but went down in the private sector.

Construction investment (preliminary GDP) in the second quarter of 2008 shrank by 0.8 percent year-on-year and by 0.6 percent compared to the first quarter of 2008.

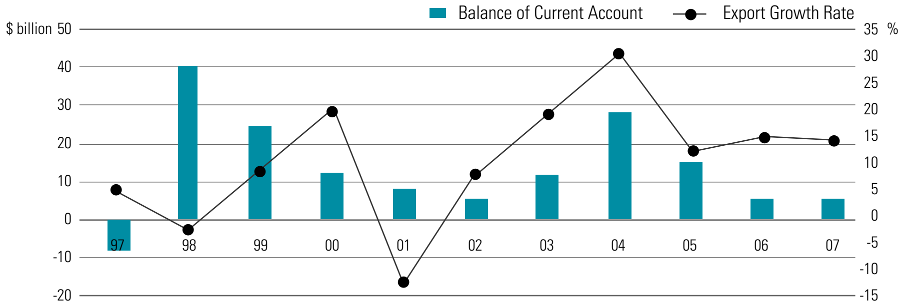
In June, construction completed (current value) lost its growth momentum in both the private and public sectors due to frequent rainfalls and strikes by construction workers.

In the face of the housing downturn and waning investor confidence, construction investment is unlikely to snap up its downward trend in the months to come.

Construction orders (current value), one component of the leading composite index, were dragged down by the housing slump in the private sector.

Balance of current account

Figure 3 Balance of current account and export



Source: Bank of Korea.

One major factor of the financial crisis was excessive deficit in international trade. During the crisis, domestic depression and depreciated Won resulted in more than US$40 billion surplus in current account balance. Since then, the magnitude has decreased with the economic recovery. The surplus in 2002 was US$5.3 billion, almost one-eighth compared with that in 1998. However, it more than doubled to US$11.9 billion with booming export in 2003. It was caused not only by a strong increase in exports of 20.7 percent, but also domestic recession. In 2004, despite increasing imports with higher prices of raw materials including oil, the export market in Korea vastly expanded. The surplus in 2004 was US$28.2 billion, more than two times that of 2003. Current account surplus in 2005 amounted to US$15.0 billion, down US$13.2 billion from the previous year.

Merchandise exports rose by 14.4% in nominal US dollar terms in 2006, in the face of a stronger won, a muted recovery in global information technology activity, and high oil prices. Generally benign external demand conditions and improved large-company competitiveness underpinned the robust export performance in the industries. Even faster growth in imports (up 18.4%) compressed the trade surplus. High prices for oil and raw materials lifted the import bill in most of 2006, though signs of moderation appeared in the fourth quarter. Merchandise trade still posted a significant surplus, but it was largely offset by a widening gap in services trade. The services deficit more than doubled between 2004 and 2006, to $18.8 billion, as more Koreans opted for overseas education, vacations, and other services.

Exports in July 2008 totaled US$41.41 billion, up 37.1 percent from a year earlier.

According to the estimates by the Ministry of Knowledge and Economy, exports of petroleum goods (up 154.5%), vessels (up 179.0%), auto parts (up 37.5%), and steel (up 74.1%) were buoyant, while those of semi conductors (down 5.9%), cars (down 6.4%), and computers (down 20.1%) went down.

By regional category, exports to ASEAN nations (up 68.3%), the Middle East (up 51.9%), China (up 26.6%), and Central and South America (up 37.5%) boomed, but those to the EU and the U.S. decreased by 6.5 percent, respectively.

In July, imports soared by 47.3 percent year-on-year to post US$43.04 billion. The run-up in imports overshadowed export gains and was mainly caused by an increase in imports of raw materials (up 55.3%) such as crude oil (up 81.3%), petroleum goods (up 141.1%), and gas (up 111.2%).

In July, Korea's trade balance swung to a deficit of US$1.62 billion as the surge in imports of raw materials eclipsed export growth.

In August, exports are projected to continue on a steep upward path, boosted by the weak won and growing exports to China, Central and South America, and the Middle East.

The growth in imports would level off if the decline in oil prices which started in mid July, continues throughout August.

Korea's current account in June posted US$1.82 billion in surplus, a turnaround from deficit for the first time in 7 months since December 2007.

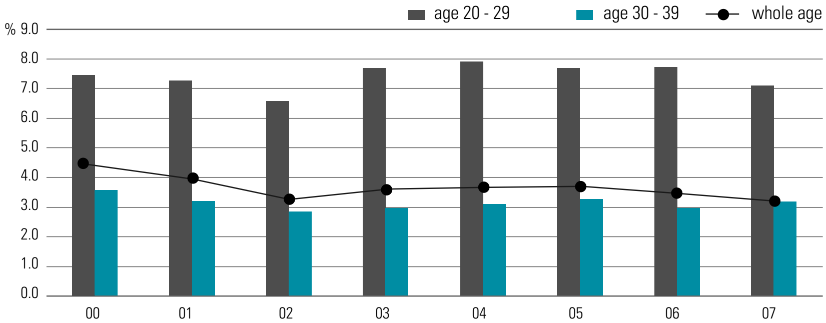
The goods account expanded its surplus to US$3.48 billion in June from US$3.21 billion a year earlier although oil imports surged by US$3.41 billion to US$8.25 billion from US$4.84 billion in the same month of the previous year. The higher surplus was attributed to temporary factors including a US$2.39 billion surplus stemming from the adjustment of the time difference between customs clearance and the hand-over of exported ships.

The service account deficit widened to US$2.13 billion in June from US$1.52 billion a year earlier, although the travel account deficit continued to shrink from the previous year's US$ 1.34 billion to US$1.07 billion in June. The increase in the service account deficit was largely due to the expanded deficit in the business services.

The income account recorded a robust surplus of US$830 million after being balanced a year earlier, driven by an increase in dividends and interest income.

Employment

Figure 4 Unemployment rate



Source: Korea National Statistical Office.

In terms of total unemployment rate, Korea has maintained a labor market that is close to full employment. Even though the rate reached around 6-8 percent during 1998 and 1999, it was around 2-3 percent before the crisis and 3-4 percent after it. Recently, it has maintained a level of around 3-5 percent from May 2004 to December 2006. The favorable turn in economic growth led to some strengthening of the labor market, and for the year unemployment averaged 3.5 percent, down from 3.7 percent in 2005. Average monthly earnings rose by 2.6 percent. However, while the Korean economy in 2006 saw 295,000 new jobs, the economy is generally sluggish at creating employment, even during upturns. Rising labor costs have encouraged manufacturers to relocate production overseas or to outsource parts of their production to countries with cheaper labor.

But the most important problem is in youth unemployment. The unemployment rate among younger generation lowered to around 6 percent in 2002 following a downward trend of total unemployment. However, domestic recession had a negative effect on youth with the unemployment rate rising from 5.6 percent in September 2002 to 8.7 percent in February 2006. In contrast, the total rate showed a relatively stable movement from 3.0 percent to 4.7 percent in the same period.

The number of Korean workers on payroll in June 2008 stood at 23.96 million with a year-on-year increase of 147,000. The pace of growth, however, slowed down considerably month-on month due to worsening economic conditions, truck drivers' strikes, and the high comparison base set in June 2007 when job growth hit a yearly high of 315,000 compared to the year's monthly average of 282,000.

The overall pace of job growth has decelerated in the service sector. However, a whopping 292,000 jobs were created in June, led by educational services, healthcare and social welfare services, and business services.

Employment in the construction sector has been falling since the third quarter of 2007 due to a recent slump in the housing business and weak investment in construction. It dropped by 61,000 jobs in June, a faster pace of decline compared with the previous month.

Agriculture, forestry and fisheries lost 54,000 jobs, continuing the downward trend as their shares in the national economy has contracted.

In terms of status of workers, the growth in the number of wage workers has decelerated to 261,000, as companies held back from hiring new employees due to worsening external conditions.

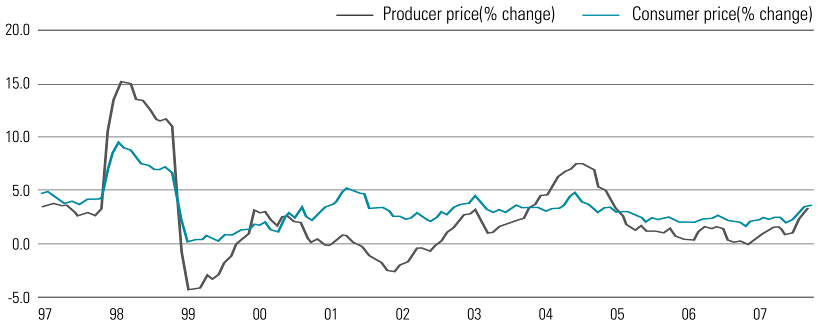
The number of regular workers, in particular, rose by 423,000, while the number of temporary or daily workers shrank significantly by 161,000 year-on-year. During the period from June 15 to 21 when an employment survey in June was conducted, the number of daily workers engaged in transportation and stevedoring fell temporarily due to strikes by the truck drivers' union from June 13 to 19.

In June, the employment rate posted 60.5 percent, down 0.3 percentage points compared to the same month of the previous year. The unemployment rate fell by 0.1 percentage point to 3.1 percent year-on-year, settling in a downward tendency. Also, the youth unemployment rate rose by 0.6 percentage points to 7.8 percent.

Inflation

Changes in Consumer Price Index (CPI) and Producer Price Index (PPI) were rather stable. Since 2001, the appreciation of Won against US dollar has lowered pressure to raise Price Indices. Consumer price inflation has been around 3 percent, even lower than around 5 percent before the financial crisis. Until recently from 2002, despite the fact that real estate price has continued its upward movement, its impact on domestic prices was insignificant holding the inflation rate at around 2.2 percent year-on-year for CPI and 2.3 percent for PPI in 2006.

Figure 5 Inflation (CPI & PPI)



Source: Korea National Statistical Office.

Monetary and fiscal policies are projected to be set in generally neutral positions. The Bank of Korea is expected to loosen the tightening bias that it maintained throughout 2006, as inflationary pressures subside in a context of softening economic growth and declining import prices.

Consumer prices in July 2008 rose by 5.9 percent year-on-year and 0.7 percent month-on-month, affected by higher international oil and commodity prices.

The increase was largely attributed to upward trends of international oil prices until early July and increased prices in agriculture, livestock and fishery products during the rainy season. International oil prices in July soared up 2.7 percent on average, having been declining since mid July. Dubai crude, for example, climbed to US$131.3 from the previous month's US$127.9. Also, prices of oil products included in consumer price index inched up 1.7 percent despite downward trends of international oil prices since mid July, as it takes 2 to 3 weeks for lowering international oil prices to pull down oil prices sold in local gas stations. Among agriculture and livestock & fishery products, prices of young radish, spinach, onion and chicken soared due to bad weather conditions and greater demands in summer season. Personal service charges continued to increase, reflecting the hikes in international oil and commodity prices. In particular, air fares and travel expenses climbed significantly as domestic air services are subject to fuel surcharges from July 1, while oil surcharge applied to international lines rose by 30 percent.

Core inflation, which excludes the prices of oil and agricultural products, rose by 4.6 percent from a year earlier fueled by increasing commodity prices.

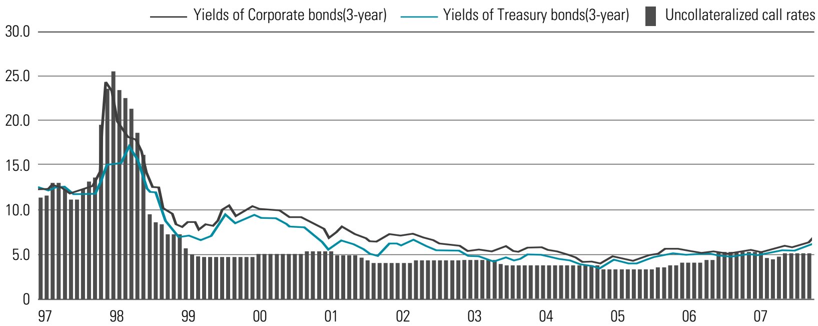
Consumer prices for basic necessities, a barometer of perceived consumer prices, were up 7.1 percent in July compared to the same month of the previous year.

Interest rate

From January 2000 to May 2005, the yield on corporate bond 3 year has maintained a downward trend. The Bank of Korea has generally supported this trend by consistently lowering target call rate with a few exceptions of rate increases. This trend has been supported by a sufficient money supply, low inflation and a worldwide downward trend of interest rates. In 2003, the average yield rate of 3-Year Corporate Bond (CB), 3-Year Government Bond (GB) and 1-Day Call were 5.4 percent, 4.5 and 4.0, respectively. As the long-term interest rate has lowered, the spread between CB and 1-Day Call has narrowed from around 4.0 percentage points in 2000 to 1.5 percentage points in 2003 and 1.1 percentage points in 2004.

However, since June 2005, the yield on corporate bond 3 year has maintained upward trend. Bond yields, such as the Treasure bond yields, rose by the Bank of Korea and continued economic upward trend. In 2006, the average yield rate of 3-Year Corporate Bond (CB), 3-Year Government Bond (GB) and 1-Day Call were 5.2 percent, 4.8 and 4.2, respectively. As the long-term interest rate has rose, the interest rate spread became larger.

Figure 6 Interest rate



Source: The Bank of Korea.

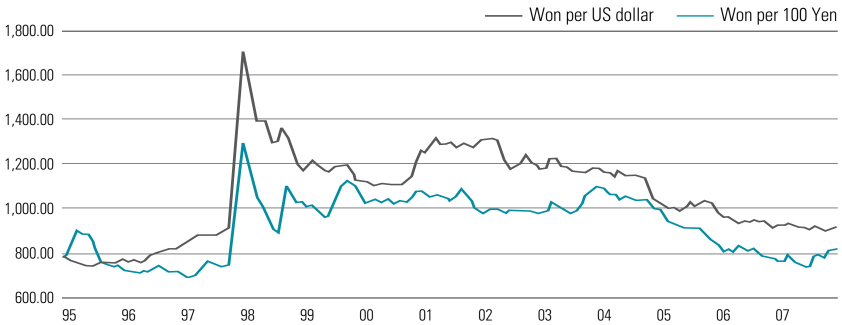
Short-term bond yields kept their upward momentum fueled by expectations over a benchmark interest rate raised by the Bank of Korea, while long-tem bond yields kept falling after the 3-year Treasury bond yields were recorded at 6.17 percent on July 14 due to prospects for an economic slowdown and lessened inflationary pressures.

Exchange rate

The exchange rate skyrocketed to an annual average of 1,398.88 Won to the dollar in 1998 after the economic crisis hit the Korean economy in late 1997. This is almost double the rate from prior to the crisis. As the economy recovered, the value of the Won stabilized again. Except for a strong dollar in 2001, the relative value of the Won has generally remained at 1,100 to the dollar and 1,000 to the 100 Yen since 2000. Given that Korea has maintained surplus in international trade and financial restructuring, there are no serious domestic factors enough to cause an unstable exchange rate.

In line with the U.S. twin deficit and weak-dollar policy, the value of Won stands at 925.8 points per dollar as of December 2006. It was the lowest level since November 19, 1997 when the local currency fell as low as 1035.5 Won. The value of Won is expected to turn upward against U.S. dollar as the value of dollar will likely remain weak in the mid and long run.

Figure 7 Exchange rate



Source: Bank of Korea.

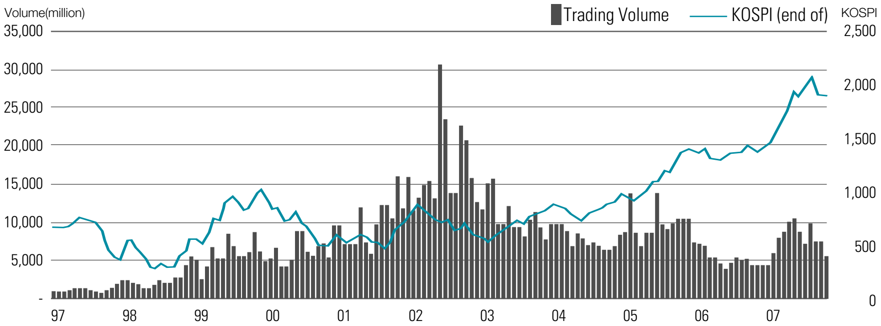
The Won was appreciated against both the US dollar and the Yen from already strong levels, also helping keep a lid on inflation. Surplus in both the current and capital accounts have underpinned the currency's strength. Despite significant capital outflows of portfolio investment, the capital accounted posted a large surplus due to a sharp increase in short-term borrowing by banks for the purpose of export industries' currency hedging. The pressure on the currency to appreciate appears to be easing though, as export growth moderates and as Koreans are allowed to invest more overseas.

The won-dollar exchange rate dropped significantly to 1,012.2 won at the end of July, compared with 1,046.0 at the end of the previous month. Net selling by foreign investors pushed the wondollar exchange rate up to 1,050.4 won on July 4, 2008. The exchange rate, thereafter, stabilized affected by the Korean government's foreign exchange market intervention and falls in international oil prices.

The won-yen exchange rate closed in July 2008 at a range of 930 won as the yen depreciated.

Stock price

Figure 8 KOSPI and Trading volume



Source: Korea Exchange.

Stock prices dropped from the semiconductor boom in the mid 1990s during the currency crisis. In this period, KOSPI lost more than half on an annual average basis. Like the economy, KOSPI recovered from the slump in 1999. However, it showed unstable fluctuations due to such factors as the IT bubble in 2000, worldwide recession, 9/11 terror attack in 2001, domestic recession and tensions in the Middle East in late 2002. These unstable fluctuations negatively influenced investors so that the trading volume has shrunk since 2002.

KOSPI has been going down until now as of mid July 2008 due to worries over high oil prices and the possibility that the global credit crunch may occur again. Against this backdrop, Korea's main bourse plunged to a yearly low of 1,507.4 points on July 16. Since then, the benchmark has rebounded slightly due to drops in international oil prices and the emergency fund inflow by the Fed, which in turn mitigated the risk of a credit crunch.

Out of concerns over a global credit crunch, foreign investors have continued massive net selling of shares in emerging markets including Korea to secure liquidity. The net amount of securities sold by foreign investors reduced slightly to 5.1 trillion won in July from 5.2 trillion won in June. Meanwhile, the net amount of portfolio sold by foreign investors from January to May 2008 was 13.5 trillion won.

Country profile

Official Name : Republic of Korea (Daehan-minguk)

Official Language : Korean

Capital : Seoul

Population : 49.0 million (estimated in 2007)

Other Major Cities : Busan, Daegu, Incheon, Gwangju, Daejeon, Ulsan

Geography

On the Korean peninsula, the Demilitarized Zone (DMZ) has separated South Korea from North Korea (Democratic People's Republic of Korea) since the end of the Korean War in 1953.

The north of the peninsula borders China at the Yalu and Tumen Rivers. Three seas surround the rest of the peninsula: the East Sea to the east, the Korean Strait to the south and the Yellow Sea to the west.

The total landmass of the peninsula, including islands, is 220,847 square kilometers. South Korea accounts for approximately 45 percent of the peninsula and is equal in size to Portugal or Hungary.

Topography

70 percent of the Korean landscape is mountainous or hilly, especially on the east coast that is rocky and rugged compared to the flatter areas in the west. Almost all available lands are intensively cultivated. The principal Taebaek mountain range runs along the east coast and extends into the Sobaek mountain range. The tallest mountain is Mount Halla, a 1,950-meter cone located on Jeju Island. The longest rivers are the Nakdong River, 521 kilometers in length and the 514-kilometer-long Han River, which flows through Seoul.

Climate

Korea has a varied climate: cold and dry winter, hot and humid summer with late monsoon rains. Spring and autumn are pleasantly warm and dry. The mean temperature of January in Seoul ranges from -5℃ to -2.5℃. In July, the range is from 22.5℃ to 25℃. Annual rainfall averages more than 100 centimeters; two-thirds of precipitation falls between June and September when the country is afflicted by typhoons.

Language

The country's official language is Korean. It has the same roots as Turkish and Mongolian and is heavily influenced by Chinese. There are no significant linguistic minorities, and regional dialects of Korean are mutually intelligible.

Religion

Religious freedom is protected by the Constitution. While there are diverse religious traditions in Korea, the main religion is Buddhism, although Christianity's presence is stronger in Korea than other Asian countries, apart from the Philippines.

Government and politics

The 17th President was elected at the end of 2007 by direct popular vote and the new President began a single five-year term in 2008. Almost all of the National Assembly members were elected by popular vote for a four-year-term and political parties according to a proportional formula appoint the rest in 2008.

Korea has nine provinces and seven provinciamÿlevel cities. Provinces are divided into counties and ordinary cities; counties into townships and towns; townships into villages. While there has been a strong central government leadership, Korea has witnessed a trend of increasing local self-governance in recent years.

This page intentionally left blank.

Korean
Insurance
Industry
2008

Market environment and supervision

Market environment

Regulations

Supervision of insurance companies

This page intentionally left blank.

Market environment

Overview

The total insurance premium of fiscal 2007[1] in Korea was 108.3 trillion Won ($117.0 billion) and increased by 11.1 percent (real term) over the previous year. Its share in the world market was 2.88 percent and it ranked at the seventh. The US market maintained its lead with the total premium of $1,230.0 billion, followed by the UK with $463.7 billion, Japan with $424.8 billion, and France with $268.9 billion.

The Korean insurance industry in fiscal 2007 performed well compared to fiscal 2006.
The inflation-adjusted growth rate of total premium in fiscal 2007 was 11.1 percent, and it was higher than the GDP real growth rate of 5.0 percent.

Table 3 Total premium volume by country (Units: $ billion, %)

Ranking	Country	Premium volume		Changes		Share of world market, 2007
		2007	2008	Nominal	Inflation-adjusted	
1	Untied States	1,229.7	1,174.6	4.7	1.8	30.3
2	United Kingdom	463.7	361.8	28.2	15.3	11.4
3	Japan*	424.8	439.4	-3.3	-3.2	10.5
4	France	268.9	250.2	7.5	-2.9	6.6
5	Germany	222.8	202.4	10.1	-1.3	5.5
6	Italy	142.3	140.6	1.3	-8.8	3.5
7	Korea*	117.0	100.6	16.3	11.1	2.9
8	Netherlands	102.8	91.8	12.0	1.1	2.5

Note: Fiscal year: Apr.1, 2007~Mar.31, 2008.
Source: Sigma, No 3/2008, Swiss Re.

[1] Source is Sigma No 3/2008, Swiss Re. It is different from KID's statistics.

Table 4 Insurance density: premiums per capita

(Units : $)

	2005			2006			2007		
	Life	Nonlife	Total	Life	Nonlife	Total	Life	Nonlife	Total
Korea	1,248.2	506.8	1,755.0	1,480.0	591.2	2,071.3	**1,656.6**	**727.3**	**2,384.0**
World	298.1	215.9	514.0	330.6	224.2	554.8	**358.1**	**249.6**	**607.7**

Note: Fiscal year: Apr.1, 2007~Mar.31, 2008
Source: Sigma, No 3/2008, Swiss Re

The insurance density, or premiums per capita reached $2,384.0 in fiscal 2007 and increased 15.1 percent from the previous year, which is the 21st highest figure in the world. The insurance density for life business was $1,656.6 while it was only $727.3 premiums for non-life business, which indicates that non-life business has not relatively developed in Korea compared to most of industrialized countries.

The insurance penetration, or premiums as a percentage of GDP, reached 11.8 percent in fiscal 2007 and ranked at the fifth highest in the world. Taiwan accounted for the first class with 15.7 percent, the United Kingdom was 15.7 percent, South Africa was 15.3 percent, and Netherlands was 13.4 percent. The life insurance sector out of the total was 8.2 percent, and 3.6 percent was created from the non-life insurance sector. The nation’s insurance penetration has increased for three consecutive years.

The GDP real growth rate increased, but the increase was not as much as that of the total premium in fiscal 2007. As a whole, the insurance penetration held a little bit high compared to the previous year. The penetration in fiscal 2007 was up 0.7 percentage points from 2006. For life and non-life insurance, the rate increased by 0.3 percentage points and 0.4 percentage points, respectively.

Table 5 Insurance penetration: Premiums in percent of GDP

(Unit : %)

	2005			2006			2007		
	Life	Nonlife	Total	Life	Nonlife	Total	Life	Nonlife	Total
Korea*	7.5	3.1	10.6	7.9	3.2	11.1	8.2	3.6	11.8
World	4.3	3.2	7.5	4.5	3.0	7.5	4.4	3.1	7.5

Note : * is Fiscal year: Apr.1, 2007~Mar.31, 2008
Source : Sigma, No 3/2008, Swiss Re

According to the life insurance subscription survey conducted on 2,000 households, the private life insurance subscription ratio per household has sharply increased since the 1980s and registered 85.7 percent in 2006. This figure is the same as 87.5 percent of Japan (2006), but is much higher than 78 percent of the United States. When the mutual sector, including products from the post office and the agricultural association, is taken into account, the ratio decreased from 89.9 percent in fiscal 2003 to 89.2 percent in fiscal 2006.

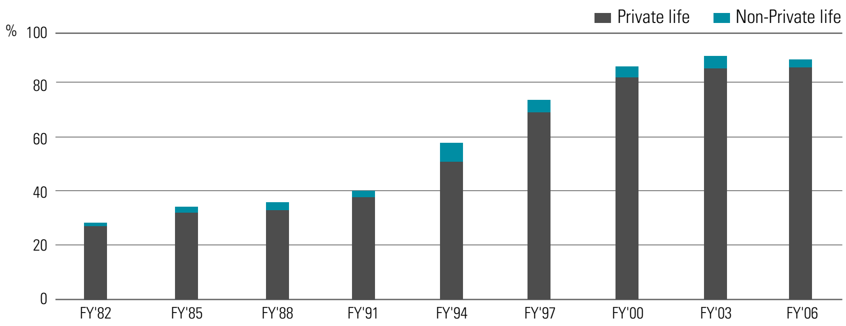
Table 6 Life insurance subscription ratios per household

(Unit : %)

	FY'88	FY'91	FY'94	FY'97	FY'00	FY'03	FY'06
Private life Insurance	32.8	37.8	50.9	69.2	81.9	85.4	85.7
Mutual, Post office	2.8	3.2	2.9	4.1	6.4	13.4	15.8
Mutual, Agricultural association	2.3	2.4	7.2	7.9	9.9	10.2	9.0
	36.4	40.3	57.8	73.7	86.2	89.9	89.2

Source: Consumers' Survey, various issues, Korea Life Insurance Association.

Figure 9 Subscription rates per household (Life insurance)



Source : Consumers' Survey, various issues, Korea Life Insurance Association.

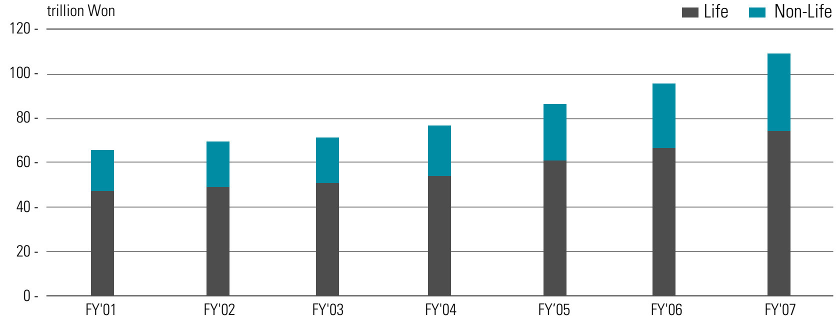
Premium volumes and total assets

Table 7 Premium volumes (Units : $ billion Won, %)

	FY'02	FY'03	FY'04	FY'05	FY'06	**FY'07**
Life	49,067	50,393	53,751	61,472	66,455	**75,096**
	(3.6)	(2.7)	(6.7)	(14.4)	(8.1)	**(13.0)**
Non-life	20,613	21,374	23,219	25,724	29,583	**33,982**
	(10.3)	(3.7)	(8.6)	(10.8)	(15.0)	**(14.9)**
Total	**69,680**	**71,767**	**76,970**	**87,196**	**96,038**	**109,077**
	(5.5)	**(3.0)**	**(7.2)**	**(13.3)**	**(10.1)**	**(13.6)**

Note : Figures in parenthesis indicate year-on-year growth rates.
Source : Monthly Insurance Report, various issues, KIDI.

Figure 10 Trends of premium volume



Source: Monthly Insurance Report, various issues, KIDI.

Because of the rapid growth of variable insurance and growing demand in pension product, long-term insurance, the nation's total insurance premiums in fiscal 2007 showed good growth which is the highest growth rate after the financial crisis in 1997 and 1998.
The total premium in fiscal 2007 grew by 13.6 percent to 109.1 trillion Won[2]. The premium growth rate in fiscal 2007 was 2.5 percentage points higher than 10.1 percent of fiscal 2006.

For life and non-life insurance in fiscal 2007, the premium growth rates recorded 13.0 percent and 14.9 percent respectively, and were up 4.9 percentage points and down 0.1 percentage point from fiscal 2006.

[2] Source: Monthly Insurance Report, KIDI.

The high growth rate of life insurance premium in fiscal 2007 was attributed to an increasing in sales of variable insurance according to the prosperity of stock market and growth of introductory tax-exempted retirement plan. But the non-life insurance premium in fiscal 2007 achieved a similar growth rate as that in fiscal 2006 due to continuing high growth in accident and health insurance and the recovery of growth in automobile insurance with a favorable rate adjustment.

The total assets of the insurance industry in fiscal 2007 increased by 12.5 percent to 371,415 billion Won: 11.8 percent with life insurance and 15.9 percent with non-life insurance.

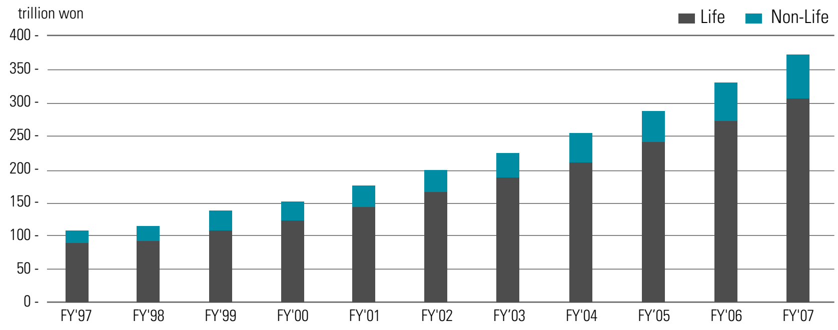
As for life insurance assets in fiscal 2007, increasing investment returns and separate account assets continued. The life insurance assets in fiscal 2007 recorded 305,400 billion Won.
The growth of long-term insurance related reserve as well as the growing investment returns was favorable factors for the non-life assets, which amounted to 371,415 billion Won.

Table 8 Total assets (Units : $ billion Won, %)

	FY'02	FY'03	FY'04	FY'05	FY'06	FY'07
Life	164,223 (14.8)	187,362 (14.1)	211,610 (12.9)	239,362 (13.1)	273,132 (14.1)	**305,400** **(11.8)**
Non-life	35,368 (8.1)	38,823 (9.8)	43,472 (15.0)	49,277 (13.4)	56,971 (15.6)	**66,015** **(15.9)**
Total	**199,591** **(13.6)**	**226,184** **(13.3)**	**255,082** **(12.8)**	**288,639** **(13.2)**	**330,103** **(14.4)**	**371,415** **(12.5)**

Note : Figures in brackets indicate year-on-year growth rates.
Source : Monthly Insurance Report, various issues, KIDI.

Figure 11 Trends in total assets



Source : Monthly Insurance Report, various issues, KIDI.

Industry landscape

The number of Korean insurers rose from 23 to 46 during the liberalization in 1990 and 1991. As entry barriers were lowered, local companies, joint ventures and foreign companies entered the Korean insurance market, and as of fiscal 1997, the total number of market participants reached as many as 50 companies.

In 1997, the financial crisis forced the supervisory authorities to restructure the insurance industry in order to regain market confidence.

Since the reform began in fiscal 1998, business licenses of four life insurance companies have been withdrawn, and six companies were sold off owing to poor performance. During another round of restructuring in 2001, two more life insurance companies closed operations, leaving 13 domestic and 9 foreign life insurance providers existing in the market as of the end of 2007.

Table 9 Insurance companies in Korea (Units : %)

Classification		Domestic	Foreign	Sub total
Life Insurance		13	9	22
Non-life Insurance	Primary	13	8	21
	Reinsurer	1	7	8
	Sub total	14	15	29
Total		**27**	**24**	**51**

Note : 1) All figures are on Mar.31, 2008
2) Foreign subsidiaries, branches, and joint ventures in which foreign shareholders account for more than 50 percent of total stocks are regarded as foreign insurance companies.
Sources : www.fss.or.kr and Insurance Statistics Yearbook, KIDI.

In the non-life insurance segment, two unhealthy guarantee insurance companies merged in 1998. New players have entered the market since 2000 as deregulation and liberalization of the industry progressed. Royal & Sun Alliance launched its underwriting operations in Korea in 2000, followed by Kyobo Auto Insurance Company in 2001 which was acquired by AXA Japan and then changed its name to Kyobo AXA in 2007, First American Title Insurance Company in 2001, Kyowon-nara Auto Insurance Company in 2003, Daum Direct Auto

Insurance Company in 2003 which was acquired by Munich Re Group and then changed its name to ERGO Daum in 2008 and Mitshui-Sumitomo Marine and Fire branch in 2003. The total number of non-life primary insurance companies swelled to 21.
In 2006, Hyundai Hicar Direct Auto insurance company opened in earnest as a subsidiary company of the Hyundai Marine & Fire Insurance Company.

Since 1997, 13 insurance companies have ceased to operate and six insurance companies have entered the market newly. 51 insurance companies were operating in the market as of the end of March 2008: 22 life insurers and 29 non-life insurers, including eight reinsurance companies.

Positioning of foreign companies

After the liberalization in 1990 and the relief of entry barriers in 1997, many foreign insurers entered the Korean insurance market. The number of foreign subsidiaries, branches, and joint ventures operating in Korea surged to 24 since 1990. Life insurers in total were nine and non-life insurers were fifteen including 7 reinsurers.

The market share of foreign life insurance companies rose from in fiscal 2007. The variable insurance product sale increase and business revitalization through Bancassurance channel raised foreign life insurers' market share ratio to 22.5 percent of the total Korean market, and it took only 5 years since reaching two digit share in fiscal 2002.

Table 10 Premium income and market share for foreign insurers (Units : $ billion Won, %)

	FY'05		FY'06		FY'07	
	Life	Non-life	Life	Non-life	Life	Non-life
Non-life Insurance	11,107	328	13,150	409	**16,924**	**1.278**
	(18.1)	(1.3)	(19.8)	(1.4)	**(22.5)**	**(3.9)**

Note : Each figure in a bracket indicates market share of life or non-life insurance industry.
Source : Monthly Insurance Report, various issues, KIDI.

For non-life insurance, the market share of foreign insurers was up by 2.5 percentage points from in fiscal 2007 because the foreign insurance groups'acquisition of domestic insurers, i.e. Kyobo AXA and ARGO Daum made an increasing number of foreign insurers and a decreasing number of domestic insurers.

Most domestic insurers suffered from a reduction in premium income and a shortage of liquidity in the late 1990s. During the same period, foreign life insurance companies have made strenuous challenges and, despite their small size, boasted better performance than their domestic competitors with respect to profitability and stability. Recently, the market share and profitability of foreign companies are increasing owing to new channels like Bancassurance and on-line channel.

Market concentration

The Korean insurance industry has showed a high market concentration with larger insurance companies having the most of market shares. This circumstance was further accelerated during the financial crisis, driven by the "flight to quality" phenomenon. The market share of larger insurance companies was still high but it diminished continuously in recent years.

The Herfindahl-Hirschman index for the life insurance of fiscal 2005-2007 disclosed that the recent concentration of life insurance was relieved from 0.1739 in fiscal 2005 to 0.1338 in fiscal 2007. The decrease in concentration is attributed to the sharp growth of foreign insurers. As for non-life insurance, the concentration was relaxed from 0.1557 in fiscal 2005 to 0.1487 in fiscal 2007. Such change was caused by a decrease in the market share of the top insurance companies and a increase in the market share of the on-line insurers and middle size companies through Bancassurance channel.

Table 11 Market concentration (Units : %)

	Ranking	Company	Market share		
			FY'05	FY'06	**FY'07**
life	1	Samsung Life	33.4	30.6	**27.8**
	2	Korea Life	16.5	16.2	**15.0**
	3	Kyobo Life	16.0	15.5	**14.0**
	4	ING Life	4.8	5.9	**6.1**
	5	Mirae Asset Life	2.7	2.8	**4.2**
	6	Allianz Life	3.9	3.6	**3.3**
	7	AIG	2.9	3.2	**3.8**
	Top 3		**65.9**	**62.3**	**56.8**
	Ranking	Company	Market share		
			FY'05	FY'06	**FY'07**
Non life	1	Samsung Fire & Marine	29.1	28.6	**27.8**
	2	Hyundai Marine & Fire	14.4	14.7	**15.3**
	3	Dongbu Insurance	13.8	14.1	**14.3**
	4	LIG Insurance	14.0	13.6	**12.8**
	Top 4		**71.0**	**71.3**	**70.1**

Note : In 2001, ING Life ranked 10th.
Source : Monthly Insurance Report, various issues, KIDI.

In the life insurance market, the top three companies, namely Samsung Life Insurance Co., Korea Life Insurance Co. and Kyobo Life Insurance Co. accounted for 56.8 percent of the total market premiums in fiscal 2007 compared to 62.3 percent in fiscal 2006. The competition caused by foreign companies led to decreasing market share occupied by large insurance companies. In the non-life insurance area, the top four leading companies- Samsung Fire & Marine Insurance Co., Hyundai Marine & Fire Insurance Co., Dongbu Insurance Co. Ltd, and LIG Insurance Co.Ltd - took up 70.1 percent of total market premiums.

Recently, the share of foreign players and on-line insurers is steadily growing because Bancassurance and on-line business garnered predominant position for them.

Financial market

Although interest rates have risen a little bit in fiscal 2007, interest rates still stay lat a low level. And it made floating money flow into Investment Trust and insurance companies with bullish equity market.

By the growth of the variable life insurance and the long-term insurance in 2007, life insurance experienced money inflow worth more than 40 trillion Won similar to the previous year. In the 2007, money inflow into stock funds was boosted by bullish stock market and the money receipt of variable insurance increased rapidly.

As for the net money receipt of financial institutions in 2007, Commercial bank, insurance companies and investment trust received the majority of the total net money: Commercial banks with 34,780 billion Won, insurance companies with 40,413 billion Won and especially investment trust with 61,819 billion Won. Merchant banks and security companies recorded positive net money receipt; Merchant banks attained 19,188 billion Won and security companies amounted to 13,954 billion Won. Consequently, the net deposits of financial institutions attained 170,154 billion Won in fiscal 2007 in total.

Table 12 Net deposits of financial institutions

(Unit : billion Won)

		2006	2007				
		Total	Q1	Q2	Q3	Q4	Total
Insurance*	Life	30,487	7,470	8,319	7,022	8,427	**31,237**
	Non-life	7,463	2,072	2,315	2,318	2,471	**9,176**
	Sub total	37,950	9,542	10,634	9,340	10,897	**40,413**
Bank	Deposit account	34,655	-251	11,408	-4,278	20,478	**25,584**
	Trust account	14,651	3,552	-1,250	5,122	18,706	**9,195**
	Sub total	49,306	3,300	10,157	844	1,772	**34,780**
Securities		7,187	2,986	8,572	3,756	-1,361	**13,954**
Investment Trust		30,273	7,303	16,389	11,256	26,901	**61,819**
Merchant Bank		10,082	6,030	7,943	3,769	1,446	**19,188**
Total		**134,798**	**29,163**	**53,696**	**28,934**	**58,361**	**170,154**

Note: * is Fiscal year: Apr.1, 2007~Mar.31, 2008
As for insurers, net deposit is measured (premiums - claims paid).
Source: Bank of Korea and Monthly Insurance Report, KIDI.

Life insurance accounted for 77.3 percent of the total net money of insurance and amounted to 31.2 trillion Won while 22.7 percent of the total was attributed to non-life with 9.2 trillion Won.

Regulations

Insurance business law and related laws

The laws related to insurance in Korea are the Insurance Business Law and its enforcement regulations. The Law was promulgated on 15 January 1962, and amended in 1971, 1977, 1980, 1988, 1994, 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2005, 2006, 2007 and 2008.

In 1977, all insurance related laws were consolidated into the Insurance Business Law. The Insurance Business Law consists of administrative supervision regulations for the private insurance industry, regulations on organizations and business activities of persons conducting insurance business, insurance soliciting, and other insurance related matters.

Korean insurance market has rapidly evolved into a free market as the Insurance Business Law has been amended 5 times in the 1980's, and 19 times since 1991. All these changes have focused on deregulation and reform of the insurance industry in order to cope with globalization and financial convergence.

In 2000, the laws and regulations were modified to allow all types of financial institutions to form alliances to move into the "noncore business" of other financial institutions. This was the first step toward a full convergence of financial institutions in Korea.

In 2003, the Insurance Business Law and its enforcement regulations posed new challenges, by focusing on overhauling existing regulations in the insurance sector in an effort to meet global standards in terms of asset management, market competition, supervisory systems and consumer protection. This was the second step toward financial convergence.

In particular, the laws and its regulations provide a basic framework for Bancassurance. They cover five major issues:

- All financial institutions, including banks, brokerage firms and mutual savings companies that meet certain regulatory requirements may sell insurance products. Although the sale of some insurance products in the Bancassurance market is currently prohibited, the government plans to gradually liberalize the market.
- Banks and brokerage firms may not sign exclusive contracts with a particular insurer.
- To enter the insurance business, banks and other financial institutions may either team up with an insurer or form joint ventures.
- Banks are restricted to "inbound" sales only.
- Banks are required to comply with various regulations on fair competition and consumer protection.

In addition, the revised law is expected to enhance and strengthen the insurance market. For the purpose of expediting market competition, minimum capital required for setting up an insurance company was lowered. The new law also includes measures against insurance fraud and for improved consumer protection: the establishment of an inter-agency coordination system to combat insurance fraud, strengthened disclosure requirements for insurance products, and tight regulations governing unfair rewriting of insurance policies.

In 2007, the Insurance Business Law was revised partly for online insurance subscribers to cool off the contract on line as online insurance contracts were increased sharply.

On March 14, 2008, the new law revised includes a few measures for better consumer protection against insurance fraud and for more effective asset management, such as strengthening public notice requirements on insurance products and enhancing account segmentation of asset or investment profit-and-loss for each insurance contract.

Financial Investment Services and Capital Market Act

The Korean government has presented a bill to legislate the 'Capital Market and Financial Investment Business Law' (come into force on February 4, 2009). This law (the so-called "Capital Market Consolidation Act") aims at reformulating the legal framework governing the 45-year old Korean capital market, launched with the enactment of Securities and Exchange Act in 1962. The Capital Market Consolidation Act will be geared towards facilitating the capital market to play a pivotal role in achieving two of the national policy goals, i.e. sustainable economic growth and becoming a Northeast Asian financial hub. An essential prerequisite is revamping the existing regulatory system based on the principle of positive-listing and sector-bysector division. Due regards will be paid to the successful precedents of UK and Australia that realized overall economic upgrade by way of promoting innovation and competitiveness through financial market regulatory reform. The Capital Market Consolidation Act will pave the way for a new era of financial market turnaround. Investors will fully enjoy due investorprotection on a par with that of the advanced economies, and will be furnished with expected investment opportunities into new and diverse financial products. Companies, in turn, will be able to raise investment funds without a hitch utilizing new financial sourcing methods tuned to their specific needs. With the expected debut of home-grown investment banks fully equipped with global competitiveness, the government envisages a great leap-forward in the Korean financial industry.

The background for legislation:

- Measures to upgrade capital market (expanding demand basis of market, enhancing capital market transparency, improving capital market efficiency, setting up the advanced legal framework of capital market)
- Creating a financial big bang in capital market (promoting financial innovation and competition through advanced regulatory reform and stronger investor protection)

The major changes for legislation:

- Shift to functional regulation
- Introduction of a comprehensive system
- Expanding business scope
- Upgrading investor protection mechanism

The expected effects:

- Setting up a business model in line with advanced IBs
- Creating synergy effect from service integration
- Strengthening competitiveness by structuring and offering a multitude of new financial products
- Achieving economy of scale after consolidation
- Bringing regulatory reform
- Transparency in penalties

Insurance supervisory authorities

Until 1997, the regulatory authorities were the Ministry of Finance and Economy (MOFE) and the Insurance Supervisory Board, which conducted routine supervision for the insurance industry. However, the authority of the MOFE has been reduced only to the establishment and modification of insurance policies and related laws. The Insurance Supervisory Board merged into the Financial Supervisory Service (FSS). The FSS, as an executive arm of the Financial Services Commission (FSC, the former Financial Supervisory Commission), is split into three divisions corresponding to the insurance, banking, and securities industries.

The responsibilities of the FSC in relation to insurance include:

- Examination and supervision of insurance institutions
- Enactment and amendment of regulations concerning supervision of insurance companies
- Authorization for the operation of insurance institutions

Primary functions of the FSS concerning insurance are:

- To support the FSC's regulatory functions
- To inspect operations and financial status of insurance institutions
- Arbitration of insurance conflicts

Review and approval system for insurance products

The FSC/FSS amended the regulatory review and approval system in 2003. The new system is intended to give insurance companies expanded autonomy and latitude in coming up with and marketing new insurance products while enabling the regulators to take preventative steps to deter defective or otherwise flawed insurance products from reaching consumers.

Greater autonomy for developing and marketing new insurance products;

- The FSC/FSS plans to reclassify and reduce the categories of insurance products that must be either filed or reported by insurance companies, while expanding the categories that need not be reported to the FSC/FSS. With the reclassified product categories.

More streamlined procedures for product filing and reporting;

- Currently, all insurance products that are either filed or reported to the FSC/FSS must receive advance premium verification from KIDI. Under the streamlined procedure, KIDI verification will be limited to insurance products that must be filed to the FSC/FSS. Documentation package required for insurance product report is also to be streamlined.

More transparent review procedures for product filings;

- When the FSC/FSS determines a product filing by an insurance company to be inadequate, they will recommend appropriate changes to the insurance company in question and give it an opportunity to act on recommendations for approval before officially ordering the company to take certain steps on the product filed. When an order is issued, the review process will include a mandatory hearing and proceed in accordance with clearly established review mechanisms.

More streamlined, objective product development and review criteria;

- The FSC/FSS plans to come up with a new set of product development criteria and guidelines that can be used for all insurance products and enable a transparent, objective product review. Reviewers will rely on standardized review checklists to perform the review objectively and transparently and minimize individual discretion. The FSC/FSS also plans to continuously use feedback from domestic and foreign insurance companies on product review and make appropriate changes to improve the process.

Supervision of insurance companies[3]

Entry regulations

Only incorporated business entities, mutual companies and licensed foreign insurers are allowed to enter the insurance business with appropriate regulatory permission from FSC/FSS[4]. There are separate permission procedures for life insurance, nonlife insurance and the "third insurance business."[5]

(a) Capital requirement

Minimum capital required for insurance business is 30 billion Won. When any insurer intends to engage in a single-line insurance business, the amount of paid-in capital or funds should be not less than 5 billion Won.

- Life insurance : 20 billion Won
- Annuity insurance (including retirement annuit y): 20 billion Won
- Fire insurance : 10 billion Won
- Marine insurance : 15 billion Won
- Automobile insurance : 20 billion Won
- Guaranty insurance : 30 billion Won
- Reinsurance : 30 billion Won
- Liability insurance : 10 billion Won
- Engineering insurance : 5 billion Won
- Real-estate right insurance : 5 billion Won
- Accident insurance : 10 billion Won
- Health insurance : 10 billion Won
- Long-term care insurance : 10 billion Won
- Other insurance business : 5 billion Won

[3] Source: "Financial supervisory system in Korea,"FSS.
[4] A branch established in Korea by a foreign insurer is deemed a foreign insurer for regulatory purposes.
[5] The term "third insurance business"refers to the so-called gray zone insurance business with characteristics and features of both life and non-life insurance policies. There are plans to streamline regulations related to this line of insurance in the near future.

But, if insurers subscribe more than 90/100 of total contracts or premiums by telephone, mail, or over the Internet, they can commerce an insurance business only more than 2/3 of paid-in capital or funds in the above description. In deciding necessary items about sales via telemarketing, it is obligatory to win approval of the FSC in advance.

(b) Business funds to be paid by foreign insurers
When foreign insurers intend to engage in insurance business, the amount of paid-in funds should be not less than 3 billion Won.

(c) Requirements for permission

- Insurers are required to have requisite capital or funds
- Insurers are required to have adequate professional manpower and facilities, including computer equipment, to carry out intended insurance business
- Insurer's business plan is required to be feasible and sound
- Major investors are required to be financially able to make full investments and have a sound financial standing and social credit

(d) Maintenance of manpower and facilities
Insurers should maintain adequate professional manpower and facilities, except in case of gaining FSC approval, in order to support management soundness of insurers or to protect policyholder's benefit.

Prudential regulations

All insurers must maintain a solvency margin ratio of 100 percent or more to ensure sound capital and asset ratio. They must also classify their assets (e.g. loans and investments in securities) according to relevant soundness and appropriate mandatory allowances for bad assets.

(a) Solvency margin
As a benchmark for financial soundness of insurers, FSC/FSS has adopted the EU-based solvency margin ratio, which is computed as a ratio of actual solvency margin to statutory solvency margin (required solvency margin).

Actual solvency margin

- Actual solvency margin is the amount that an insurer maintains in excess of its liabilities as solvency surplus against future benefit payment obligations and other contingencies. It is computed as the difference between the sum of the contributed capital[6], retained earnings, capital adjustment accounts, and various reserves in the capital account and the sum of un-amortized acquisition cost[7], intangible assets (e. g., goodwill), prepaid expenses, and deferred income tax debits and then reflecting the capital surplus or deficit of the subsidiary companies within groups.

Statutory solvency margin (required margin standard)

- The statutory solvency margin is the mandatory minimum amount set by FSC/FSS that insurers must maintain in order to meet their liabilities. Life insurers and non-life insurers are subject to different statutory solvency margins as noted below:

The statutory solvency margin for life insurance companies is computed as the sum of (1) the product of the net premium type policy reserve net of un-amortized acquisition cost and corresponding ratio for a 4 percent policy reserve factor, and (2) products of net insurance benefit and corresponding ratio for an insurance risk factor.

The statutory solvency margin for non-life insurers is computed as the sum of amounts calculated separately by general insurance and long-term saving-type insurance. For general insurance, a premium-based amount or a claim-based amount, whichever is greater-each of which are calculated by the class of insurance-should be the statutory solvency margin. For long term insurance, statutory solvency margin shall be the sum of 4 percent of policy reserve at the year-end and a premium- based amount, or a claim-based amount, whichever is greater.

(b) Asset classification

Insurers must classify the qualities of their holding assets into five classes and appropriate allowances accordingly. The 5 classes are (1) normal, (2) precautionary, (3) substandard, (4) doubtful, and (5) estimated loss.

Table 13 Classification and provisioning

Classification of Asset Soundness	Provisioning Standards
Normal	More than 0.5%
Precautionary	More than 2%
Substandard	More than 20%
Doubtful	More than 50%
Estimated	Loss 100%

Source : Financial Supervisory Service

[6] i.e. legal (paid-in capital and additional paid-in capital)

[7] Note that acquisition cost is an insurance term used to denote expenses for soliciting and placing new insurance business, and includes such expenses as agent's commissions and underwriting expenses.

Management evaluation system

In order to prevent insurers from insolvency and to ensure their sound management, FSS watches and evaluates financial soundness of insurers by off-site surveillance and on-site examination and then may order management improvement plan to financially impaired insurers under the Prompt Corrective Action (PCA), which may include management improvement recommendations, management improvement requirements, or management improvement orders.

FSS conducts off-site surveillance for insurance companies through the existing surveillance system that monitors soundness of insurance companies. The off-site surveillance may also entail analysis of various business reports and documents. FSS may use off-site surveillance for the purpose of recommending or ordering management improvements, adjusting evaluation rating of management status, or for making preparations for future examinations onto problematic insurers and their weaknesses. The CAMEL system (Capital adequacy, Asset soundness, Management, Earnings, and Liquidity) is used to evaluate insurance companies.

Table 14 Evaluation procedure

1st stage	To evaluate quantitative items: estimation of provisional evaluation grade by component To evaluate of non-quantitative items
2nd stage	To determine ratings by component (1-5) with comprehensive analysis of non-quantitative items and provisional rating by component
3rd stage	To estimate provisional composite rating
4th stage	To determine composite rating (1-5) with comprehensive provisional composite rating and overall management status, business capability, financial and economic condition, etc.

Source : Financial Supervisory Service

FSS seeks to enhance reliability of the evaluation system for insurance companies by making all insurers who have operated continuously for 2 or more years subject to an on-site evaluation.

Insurance companies are subject to comprehensive on-site examinations. There are two types: regular examinations (full examination) and targeted examinations (partial examinations). On-site examinations typically focus on the following areas:

- Soundness of assets
- Regulatory compliance
- Adequacy of internal control systems
- Evidence of fraud, embezzlement, and other irregularities; Accuracy of numerical data and reports submitted to FSS
- Other information

During the examination, FSS evaluates management status of the insurer in question and examines its risk management according to corresponding policies. The results of on-site evaluation are not disclosed but used as internal data by FSS for supervisory purposes, including PCA for management improvement recommendations, requirements or orders depending on the results.

In order to enhance the effectiveness of on-site examinations, FSS receives regular business reports from each insurance company and analyzes current status of the insurer's management. After the examination, FSS evaluates management status of an insurance company, such as its asset quality and reserve holdings, and the adequacy of internal controls. Based on the findings, it recommends appropriate measures to cope with disclosed problems during the examination.

Restrictions on investments of insurers

Premiums paid by policyholders make up the bulk of insurers' assets, which are mostly appropriated as technical reserves to meet insurers' future liabilities and benefit obligations. As prudent and sound management of insurers' assets is essential to protect policyholders, FSS regulates insurers' asset management to ensure safety, liquidity, profitability and public interest of assets. The regulation methods are composed of negative methods prohibiting a certain type of asset operation according to insurance related laws and regulations.

Insurance companies are prohibited from the following activities:

- Acquisition of precious metals, jewelry and antiques
- Acquisition of non-business-purpose real estate holdings
- Lending intended for speculation in securities
- Lending intended for acquisition of its own shares
- Lending intended to fund political activities
- Lending to officers or employees
- Any activity that undermines the safety and soundness of the company assets

In order to prevent the extension of disproportionate support by an insurer to its own business group and to prevent the spread of investment risks, FSS regulates insurer's investment limit and investment categories. Insurer's limit on asset operation by subject eligible for investment is as follows:

Table 15 Restriction ratios of asset operation

Items	Limit - General account	Limits - Separate account
Credit extension to a person or a company	3% of total assets	5% of total assets
Stock and bond investment in any single company	7% of total assets	10% of total assets
Credit extension or stocks and bond investments to a person or a company (including related persons or companies)	12% of total assets	5% of total assets
Sum of credit extension and stocks and bond investments in excess of 1/100 of the insurer's total assets (applicable to the same person, company, or the principal shareholders)	20% of total assets	20% of total assets
Credit extension to a principal shareholder or a company falling in the category of a subsidiary unit of the insurance company under the Presidential Enforcement Decree	Lower of either (1) 2% of the total assets or (2) 40% of the capital	2% of total assets
Stock and bond investments to a principal shareholder or a company falling in the category of a subsidiary unit of the insurance company under the Presidential Enforcement Decree	Lower of either (1) 3% of the total assets or (2) 60% of the capital	3% of total assets
Credit extension to the same subsidiary of the insurance	10% of the capital	4% of total assets
Real estate holdings	15% of total assets	15% of total assets
Unlisted stock holdings	10% of total assets	10% of total assets
Foreign currency holdings or real estates holdings oversea in accordance with the Foreign Exchange Transactions Act	30% of total assets	20% of total assets
Sum of security deposits for domestic and overseas futures trading	5% of total assets	3% of total assets

Note : Total assets are those of general account or those of separate account.
Source : Financial Supervisory Service

Supervision with long-term care insurance

The law for long-term care insurance (the so-called “Elderly Care Act”) was effective as of July 1, 2008, as a result of the bill which was passed on April 2, 2007. The purport of the law is that the government and community should share with households long-term care expenses for the aged people according to the principle of social solidarity. In fact, the problems with dementia and paralysis of the elderly had been left unattended giving burdens only to family caregivers. It is hoped that this new system will serve as a momentum of enhancing the standards of welfare for the aged since it enables them to receive professional and systematic medical care from medical specialists and reduces physical and mental burdens on their families due to the long-term care, along with financial ones.

The elderly who are admitted to the long-term care system with dementia, paralysis, and other diseases can receive home care service, institutional care service, or care allowance service. These three services are described as follows:

- Homecare service: It provides the elderly at home with the following services from long-term care guardians and nurses: assistances in taking meals, going to toilet, and shower and bathing; and services of becoming a companion to talk to and taking them for a walk, along with nursing services. Furthermore, it provides them with services for daily household chores such as household cleaning.

- Institutional care service: It provides the elderly with professional care services for long after entering a care institution with facilities, equipments, and specialists for medical care.

- Care allowance service: It provides the elderly with cash in case they should be taken care of by their families due to the absence of care institutions because they live on islands or remote places.

The expenses required to maintain long-term care insurance are filled up with a separate long-term care insurance premium imposed on people joining the national health insurance and payments by the central and local governments, along with individual's out-of-pocket payments. Specifically, the long-term care insurance premium is calculated by multiplying national health insurance premium by the premium rates of long-term care insurance, and then notified to the insured for health insurance with the health insurance premium.

The central government pays 20 percent of expected revenues from the longterm care insurance premium. Those who receive the long-term care insurance service pay at their own expense 15 percent for the home care service and 20 percent for the institutional care service, respectively.

Those who are 65 years or older, or those who need long-term care services as they cannot move freely are eligible for the long-term care insurance. In addition, those who have senile disease can also be benefited although they are under 65 years of age.

The central government has made thorough preparations for putting the long-term care insurance into effect by expanding care facilities for the elderly as well as implementing pilot tasks since 2005. It will continue to establish additional statutes and policies, and to expand and improve computer systems for the National Health Insurance Corporation so as to minimize inconvenience of the elderly.

This page intentionally left blank.

Korean
Insurance
Industry
2008

Life insurance industry

Balance sheet
Trends in insurance contracts
Premium income by group
Premium income by type

Expenditures
Claims paid
Operating expenses
Total income and expenditure

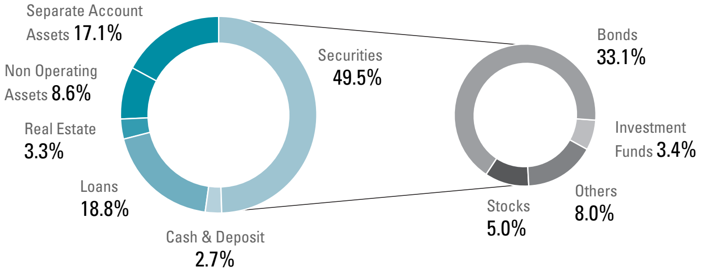
Management efficiency

Distribution

This page intentionally left blank.

Balance sheet

Figure 12 Asset portfolio in fiscal 2007



Source: Insurance companies' monthly report, various issues, KIDI.

In fiscal 2007 the total assets of life insurance companies reached 305,400 billion Won, an increase of 11.8 percent over fiscal 2006. The growth rate slightly deceased by 2.3 percentage points. Expanding separate account assets with a stock market rally primarily led to the asset growth.

The assets of life insurance companies are composed of financial instruments such as securities, loans and real estate. Approximately 50 percent of life insurers' assets were held in securities in fiscal 2007, amounting to 151,173 billion Won. Bonds have the largest portion of securities. On the other hand, the portions of stocks and investment funds are relatively small.

Table 16 Balance sheet summary

(Units: billion Won, %)

Classification	FY '03	FY '04	FY '05	FY '06	FY '07
Assets					
Cash & Equivalent	3,180	3,012	4,232	4,925	**8,156**
	(1.7)	(1.4)	(1.8)	(1.8)	**(2.7)**
Securities	94,665	111,268	125,190	141,638	**151,173**
	(50.5)	(52.6)	(52.3)	(51.9)	**(49.5)**
Stocks	8,893	9,394	12,352	12,868	**15,211**
	(4.7)	(4.4)	(5.2)	(4.7)	**(5.0)**
Bonds	57,538	71,984	81,628	94,590	**101,090**
	(30.7)	(34.0)	(34.1)	(34.6)	**(33.1)**
Investment funds	7,024	7,085	9,706	9,705	**10,375**
	(3.7)	(3.3)	(4.1)	(3.6)	**(3.4)**
Others	21,211	22,804	21,504	24,475	**24,497**
	(11.3)	(10.8)	(9.0)	(9.0)	**(8.0)**
Loans	45,125	45,306	47,392	50,542	**57,295**
	(24.1)	(21.4)	(19.8)	(18.5)	**(18.8)**
Real estate	9,052	8,944	9,284	9,755	**10,092**
	(4.8)	(4.2)	(3.9)	(3.6)	**(3.3)**
Non operating assets	20,574	24,426	24,805	27,069	**26,411**
	(11.0)	(11.5)	(10.4)	(9.9)	**(8.6)**
Separate account assets	14,764	18,654	28,459	39,203	**52,272**
	(7.9)	(8.8)	(11.9)	(14.4)	**(17.1)**
Total asset	**187,362**	**211,610**	**239,362**	**273,131**	**305,400**
Liabilities					
Policy reserves	**149,112**	**165,846**	**180,918**	**200,625**	**215,971**
Policyholder equity adjustments	1,342	3,739	3,526	3,724	**3,983**
Other liabilities	6,828	7,908	9,397	10,100	**10,205**
Separate account liabilities	14,764	18,654	28,459	39,203	**53,162**
Total liabilities	**172,046**	**196,148**	**222,300**	**253,651**	**283,321**
Stockholder equity					
Capital stock	5,735	5,724	6,103	6,103	**6,459**
Capital surplus	962	1,007	924	1,080	**1,730**
Retained earnings	1,440	3,642	5,839	7,715	**9,799**
Capital adjustment	7,179	5,089	4,196	4,582	**-13**
Stockholder equity	**15,316**	**15,462**	**17,062**	**19,480**	**22,079**

Note: Figures in parentheses indicate percentage shares.
Source: Insurance companies' monthly report, various issues, KIDI

Loans, which were the second largest in asset portfolio, accounted for 18.8 percent of total assets in fiscal 2007. The amount held in loans is slightly increasing compared to the previous year. The portion invested in real estate has been decreasing.

As unamortized acquisition cost has been recognized as a part of asset since the 1998 revision of accounting regulations, nonoperating assets comprise a much larger portion of total assets. However, it tends to decrease in these days.

The category of separate account assets, which was created in April 1999, has grown steadily with the additions of new, separate account products such as variable whole life insurance (July 2001), variable annuities (October 2002) and universal variable life insurance (July 2003). Separate account assets are the fastest growing part of total assets. In fiscal 2007, it increased by 33.3 percent over the previous year.

Trends in insurance contracts

New business contracts amounted to 390,104 billion Won and increased by 10.7 percent in fiscal 2007, after a decrease of 3.8 percent in fiscal 2006. It was contributed to by a sudden increase of variable insurance contracts as a result of a stock market rally. Lapses and surrenders also have increased by 2.3 percent and amounted to 196,770 billion Won.

Business in force contracts, which represents all existing and new policies and excludes those that have been terminated owing to maturities, grew by 7.6 percent over the previous year and amounted to 1,644,334 billion Won in fiscal 2007

Table 16 Insurance contracts

(Units: billion Won, %)

Classification	FY '03	FY '04	FY '05	FY '06	FY '07
New business	310,566	327,954	366,281	352,401	**390,104**
	(-4.7)	(5.6)	(11.7)	(-3.8)	**(10.7)**
Lapses & Surrenders	233,640	217,846	199,790	192,282	**196,770**
	(16.8)	(-6.8)	(-8.3)	(-3.8)	**(2.3)**
Business in force	1,201,234	1,308,436	1,437,509	1,527,863	**1,644,334**
	(6.1)	(8.9)	(9.9)	(6.3)	**(7.6)**

Note: Figures in parentheses indicate annual percent changes.
Source: Insurance companies' monthly report, various issues, KIDI.

Premium income by group

In fiscal 2007, total life insurance premium income amounted to 75,096 billion Won and grew by 13.0 percent over fiscal 2006. This can be split into two groups of insurance companies. Premium income of three dominant companies (Samsung life, Korea life and Kyobo life) amounted to 42,584 billion Won and other companies' amounted to 32,512 billion Won. In terms of premium growth rates, other companies hold a prominent position compared to the three dominant companies. In fiscal 2007, other companies recorded a growth rate of 29.7 percent while three dominant companies grew only by 2.9 percent.

The market share of the three dominant companies increased from 67.2 percent in fiscal 1997 to 75.0 percent in fiscal 1999. The market concentration deepened even more, owing to P&A activity, resulting in a peak market share of 80.9 percent in fiscal 2000.

In fiscal 2007, the market share of three dominant companies recorded 56.7 percent, which was below 60 percent since it had first decreased below 70 percent in 2004. This phenomenon is mainly due to the growth of foreign companies. The market share of foreign companies reached 23.0 percent while small and medium-sized domestic companies' recorded 20.3 percent in fiscal 2007.

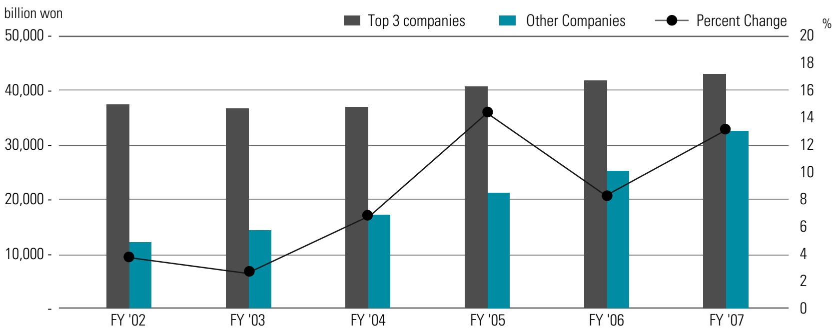
Table 17 Premium income by group

(Units: billion Won, %)

Classification	FY '03	FY '04	FY '05	FY '06	FY '07
Top 3 Companies	36,284	36,838	40,508	41,384	**42,584**
	(72.0)	(68.5)	(65.9)	(62.3)	**(56.7)**
Other Companies	14,108	16,913	20,964	25,071	**32,512**
	(28.0)	(31.5)	(34.1)	(37.7)	**(43.3)**
Total	**50,392**	**53,751**	**61,472**	**66,455**	**75,096**
	(2.7)	**(6.7)**	**(14.4)**	**(8.1)**	**(13.0)**

Note: The figures in parentheses and brackets indicate percentage shares and annual percent changes, respectively.
Source: Insurance companies' monthly report, various issues, KIDI.

Figure 13 Premium income by group and growth rate trend



Source: Insurance companies' monthly report, various issues, KIDI.

Premium income by type

Since financial crisis in 1997, term insurance has grown remarkably owing to a high demand for protection-type insurance policies and marketing activities. For a few years, especially whole life insurance sale, which was stirred by foreign companies, led to the growth of term insurance. Growth in whole life product decelerated due to saturated consumption, but other protection insurance like critical illness insurance and health insurance supplemented the need for protection. In fiscal 2003, the share of term insurance increased as a result of interest in critical illness insurance. And In fiscal 2004, the popularity of variable whole life insurance accelerated the enlargement of term insurance share. But between fiscal 2005 and 2006, popularity of variable whole life insurance withered as consumer's preference changed to the universal variable life insurance. Moreover, in fiscal 2007 stagnation of critical illness insurance sales caused more slowdown of term insurance growth.

Meanwhile, premium income for pure endowments has sharply decreased since fiscal 1997, and is far below its 62.4 percent market share in fiscal 1994, when qualified annuities were first introduced. This huge decline is due to increases in the shares of tax benefit reduction and protection-type insurance policies.

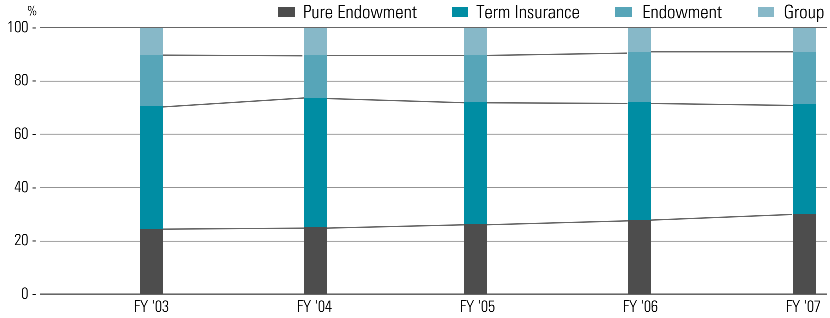
Table 18 Premium income by type

(Units: billion Won, %)

Classification	FY '03	FY '04	FY '05	FY '06	FY '07
Pure endowment	12,037	13,137	15,930	18,059	**22,390**
	(23.9)	(24.4)	(25.9)	(27.2)	**(29.8)**
Term insurance	23,184	26,297	27,849	29,420	**30,681**
	(46.0)	(48.9)	(45.3)	(44.3)	**(40.9)**
Endowment	9,494	8,580	10,972	12,421	**14,835**
	(18.8)	(16.0)	(17.8)	(18.7)	**(19.8)**
Individual Total	44,716	48,014	54,752	59,900	**67,906**
	(88.7)	(89.3)	(89.1)	(90.1)	**(90.4)**
Group	5,676	5,737	6,720	6,555	**7,190**
	(11.3)	(10.7)	(10.9)	(9.9)	**(9.6)**
Total	**50,392**	**53,751**	**61,472**	**66,455**	**75,096**
	[2.7]	**[6.7]**	**[14.4]**	**[8.1]**	**[13.0]**

Note: Figures in parentheses and brackets indicate percentage market shares and annual percent changes, respectively.
Source: Insurance companies' monthly report, various issues, KIDI.

Figure 14 Premium income by group and growth rate trend



Source: Korea Statistical Information Service.

The share of pure endowment have increased due to the recovery of demand for annuities providing old age income protection since fiscal 2002, increased demand before tax exemption period extension, and the Bancassurance channel (September 2003). From fiscal 2004 to 2007, the share of pure endowment grew gradually thanks to the increment in variable annuity product and the popularity of savings-type insurance product.

The growth of endowment insurance significantly expanded in fiscal 2000 owing to the prolonged period for tax exemption and low investment returns experienced by other financial institutions. It began to diminish as insurance companies employed a contraction policy in the face of low interest rate. Although the tax exemption period extended again at the end of 2003, the share of endowment insurance dropped to 18.8 percent of total premium income in fiscal 2003. However, the share has increased since fiscal 2005 due to the popularity of variable universal life insurance. In fiscal 2007, the share of endowment insurance has reached 19.8 percent.

Group insurance steadily grew until fiscal 1997. The market share of group insurance decreased in fiscal 1998 because of a high level of surrenders with the recession, but recovered in 1999 to the level before the economic crisis. This recovery, however, was rather temporarily underpinned by the transference of employee severance insurance and severance pay to occupational pensions beginning in 1999. Since then, the share of group insurance has declined to 10.7 percent in fiscal 2004 because of premature withdrawal of retirement pensions and annual pay systems. But in terms of amount in fiscal 2004, the reduction stopped with the amount growing back by 1.1 percent.

The occupational pension was introduced to resolve problems of employee severance insurance by means of internal reserve and vested rights of employees. Under the occupational pension, external reserve method is used, with employees remaining as the beneficiaries. On the other hand, employees were normal beneficiaries of the insurance under employee severance but the surrender value reverted to employers. A new occupational pension product including defined contribution type was put in force in December 2005. And the old occupation pension suspended. The new system was not stable at launch, though it has been expanded in terms of scale since 2006 due to some changes in the corporate tax system. In fiscal 2007, group insurance increased by 9.6 percent as a result of the expansion of sales in the new occupation pension.

Expenditures

Claims paid

The amount of claims paid on life insurance has fluctuated owing to severe changes in the level of surrenders. As surrenders declined, claims paid in fiscal 1999 dropped by 16.1 percent, reaching 38,305 billion Won. They further decreased in fiscal 2001 and 2002 to 34,353 billion Won and 29,418 billion Won, respectively. These decreases were due to corresponding decreases in surrenders of pure endowment and endowment insurance. This rate of decrease was far higher than that of premium income, resulting in an improvement of efficiency in underwriting. But again, the amount of claims increased in fiscal 2003 to 31,739 billion Won. This was due to increases in whole life insurance and endowment insurance claims. In fiscal 2004, it slipped slightly by a decrease in endowment insurance claims. But it raised a total of claims paid to 35,581 billion Won in fiscal 2005. Caused by pure endowment claim's increase and endowment insurance's grand mature the amount of claims increases immensely in fiscal 2007, which decreasing slightly in fiscal 2006.

Operating expenses

The operating expenses of life insurance companies are composed of acquisition expenses, administration expenses, and collection expenses. Changes in insurance accounting standards in 1998 allowed certain acquisition expenses to be treated as deferred payments. Acquisition expenses, including deferred acquisition expenses, accounted for a considerable share of total operating expenses.

The operating expenses in fiscal 1999 decreased by 21.9 percent from the previous year. The reason for this large reduction differed from that of the previous year; it was due to the ongoing restructuring and efficiency measures taken by insurance companies. While operating expenses in fiscal 2001 lessened slightly compared to fiscal 2000, they augmented by 8.6 percent in fiscal 2002 because of increases in temporary cost associated with organizational restructuring.

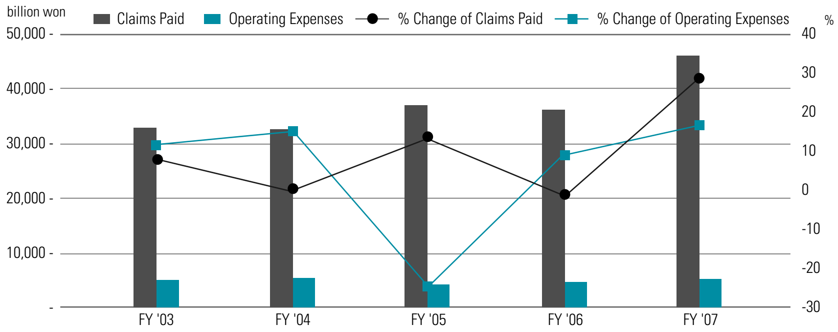
Table 19 Claims paid and operating expenses

(Units: billion Won, %)

Classification	FY '03	FY '04	FY '05	FY '06	FY '07
Claims paid	31,739	31,623	35,581	35,144	**44,877**
	(7.9)	(-0.4)	(12.5)	(-1.2)	**(27.7)**
Operating expenses	4,716	5,357	4,026	4,343	**5,018**
	(10.6)	(13.6)	(-24.9)	(7.9)	**(15.5)**

Note: Figures in parentheses indicate annual percentage changes.
Source: Insurance companies' monthly report, various issues, KIDI.

Figure 15 Claims paid and operating expenses



Source: Insurance companies' monthly report, various issues, KIDI.

In fiscal 2003 they swelled considerably as protection-type insurance income increased. In fiscal 2004, they further incremented as savings-type insurance related expenses grew. After a plummet of operating expenses due to a sudden increase of deferred acquisition expenses in fiscal 2005, the growth of the operating expenses has increased for two consecutive years.

Total income and expenditure

The net income for insurance companies can be calculated by the sum of underwriting, investment, and other activities. Net losses in underwriting and other activities, which amounted to 4,860 billion Won in 2001, were less than investment profit worth 6,966 billion Won. The year 2001 was the first year that generated net profit in five years. In fiscal 2002, net loss in underwriting and other activities amounting to 4,674 billion Won was again smaller than investment profit. Net profit was up a significant 64.1 percent from the previous year, thanks to good sales of protection-type products and stable investment performance.

Although the amount of net profit decreased in fiscal 2003 significantly due to non-business activities of major companies, it regained resilience in 2004 as a result of ongoing, lucrative investment. In fiscal 2005, an increase in separate account commission facilitated the net income of other activities but underwriting loss also increased. The total profit in fiscal 2005 slightly decreased over the previous year as a whole. After fiscal 2005, the total profit became stable in 2006 and 2007.

Before fiscal 2001, the industry overall suffered net losses. However, a handful of foreign and leading domestic companies earned both underwriting and investment profits. Small and medium-sized domestic companies thus mainly registered net losses in the industry. The insurance industry as a whole has suffered net losses since 1994. The main factors behind such losses were excessive operating expenses and unproductive asset portfolios.

Table 20 Claims paid and operating expenses

(Units: billion Won, %)

Classification		FY '03	FY '04	FY '05	FY '06	FY '07
Income	Underwriting	47,721	49,281	50,050	52,053	**54,234**
	Investment	11,871	12,982	12,520	13,092	**15,345**
	Other	449	555	1,008	1,681	**2,310**
	Total	**60,041**	**62,818**	**63,578**	**66,826**	**71,889**
Expenditure	Underwriting	52,881	55,899	57,991	61,599	**65,475**
	Investment	2,414	2,241	2,280	1,962	**2,856**
	Other	2,633	2,012	583	682	**669**
	Total	**57,928**	**60,152**	**60,855**	**64,243**	**68,999**
Net Balance	Underwriting	-5,159	-6,618	-7,941	-9,546	**-11,240**
	Investment	9,457	10,741	10,240	11,131	**12,489**
	Other	-2,185	-1,458	425	999	**1,641**
	Total	**2,113**	**2,665**	**2,724**	**2,584**	**2,890**
Tax		526	560	626	636	**785**
Net income (loss)		1,587	2,105	2,097	1,948	**2,105**

Source: Insurance companies' monthly report, various issues, KIDI.

Small and medium-sized domestic insurance companies were forced to spend excessively in order to remain competitive against fierce competition posed by larger domestic and foreign rivals. In contrast, the ratio of non-operating assets to total assets held by these insurers was much higher than that for major companies, which resulted in relatively low investment profits.

In fiscal 2001, the entire industry gained a net profit as investment profit exceeded underwriting loss for all industry groups. Again in fiscal 2002, the overall industry earned a net profit driven by improved investment performance, and the growth rate of profits of small and medium-sized domestic companies and foreign companies exceeded that of the three dominant companies. In fiscal 2005, investment balance of big three and foreign companies moved into surplus, and next year small and medium-sized domestic insurance companies also earned profits on the investment. In fiscal 2007, the net profit of foreign companies decreased sharply due to underwriting losses worsened. On the other hand, the net profit of big three companies increased largely over the previous year.

Management efficiency

The ratio of claims paid, which is calculated by dividing claims paid by premiums written, was just 64.3 percent in fiscal 1996, but it rose significantly in fiscal 1998. This increment corresponds to an increase in lapses and surrenders during the economic crisis. The ratio declined in fiscal 1999 and 2000 as lapses and surrenders decreased owing to low interest rates provided by banks and other financial institutions. It further improved in fiscal 2001 mainly because of a significant decrease in claims paid, and fell below 60 percent in fiscal 2002 since claims paid reduced further and income from premium augmented slightly. But in fiscal 2003, it increased modestly as term insurance claims paid grew and the ratio lowered again in fiscal 2004 as overall insurance income grew up. Between fiscal 2005 and 2007, the ratio of claims paid fluctuated as the amount of claims paid did.

The ratio of lapses and surrenders is calculated by dividing lapses and surrenders by the sum of business in force at the beginning of the year and new business. This ratio showed a similar pattern to the ratio of claims paid, except in fiscal 1999 when it dropped from 29.4 percent to 20.5 percent. The transition from a volume-oriented to a maintenance-oriented underwriting strategy may explain this decline. The ratio declined in fiscal 2001 due to improvements in insurance management, but increased slightly in fiscal 2002 and 2003 because of increasing lapses and surrenders related to continuous economic recessions. In fiscal 2004 and 2005, it diminished consecutively as lapses and surrenders of savings insurance reduced. In fiscal 2007, a downward trend of the ratio was lasting due to decreasing lapses and surrenders of group insurance.

The ratio of operating expenses to premiums written was 10.6 percent in fiscal 1998, a decrease from the previous year. This reduction was caused by changes in insurance accounting standards mentioned above.

Table 21 Management efficiency

(Unit: %)

Classification	FY '03	FY '04	FY '05	FY '06	FY '07
Ratio of claims paid	61.3	59.7	63.6	56.6	**66.6**
Ratio of lapses and surrenders	16.1	14.2	11.8	10.6	**10.2**
Ratio of operating expenses	10.3	11.3	8.4	8.7	**6.7**
Ratio of operating assets	88.1	87.3	88.2	88.4	**89.6**
Yield rate of total assets	8.3	8.0	7.0	6.6	**5.7**

Note: Separate accounts are excluded.
Source: Insurance companies' monthly report, various issues, KIDI.

The ratio also decreased to 9.2 percent and 8.6 percent in fiscal 1999 and 2000, respectively. These declines can be attributed to other factors: ongoing cut in cost, restructuring, and strong competition.

However, the ratio recovered in fiscal 2001 was boosted by the popularity of protection-type insurance policies and by organizational restructuring changes in fiscal 2002. In the following fiscal year, the ratio was elevated to the level of fiscal 1998 while it was raised again in fiscal 2004 because of more insurance expenses related to savings. In fiscal 2005, it decreased below 10 percent due to a plummet of deferred acquisition cost. As reflecting separate account to the ratio of operating expenses, the rate decreased to 6.7 percent in fiscal 2007.

Because of the high interest rates during the economic crisis, yields of total assets were 11.9 percent in fiscal 1998, higher than in other fiscal years. The yields declined in fiscal 2000, 2001 and 2002, reflecting declining market interest rates and depressed investment opportunities. Furthermore, in fiscal 2003 and 2004 this rate decreased due to a low-interest policy. From fiscal 2005 total asset returns decreased gradually with lower market interest rates. In fiscal 2007 they further decreased by 5.7 percent.

Distribution

A new distribution channel, Bancassurance-insurance products offered by banks, was introduced in September 2003 in the Korean financial industry. After rounds of heated debates, it opened to restricted product lines such as annuity, endowment, and credit life insurance. In April 2004, Bancassurance was expanded to third party and pure protection-type insurance lines. However, the opening of the auto insurance and protection-type insurance was postponed, which were supposed to be open in 2008.

In the traditional channel, tied agents known as solicitors dominate the life insurance market. They work for one company on a commission basis and are supervised by sales managers. The quality and professional knowledge of solicitors vary between domestic and foreign companies. The solicitors of foreign companies are full-time, trained professionals, a caliber that domestic companies cannot match with. However, domestic companies have recently begun employing highly qualified solicitors to improve efficiency in distribution. And there are to be a big change in the distribution channel itself, namely a cross selling across life vs. non-life insurance sector is expecting to be introduced soon.

In fiscal 2007, the number of solicitors in the life insurance industry increased by 9.5 percent. Especially, male solicitors showed dramatic increases with a growth rate of 30 percent recorded. The productivity of solicitors increased slightly over the previous year.

As big three life insurance companies shifted their strategy from external growth to profit maximization, they streamlined distribution by eliminating solicitors and direct writers who demonstrated low productivity. New channels such as Bancassurance, TM(Tele-Marketing) and CM(Cyber-Marketing), also expedited competition. Meanwhile, foreign and domestic mid or small companies aggressively employed solicitors as they tried to expand distribution channels.

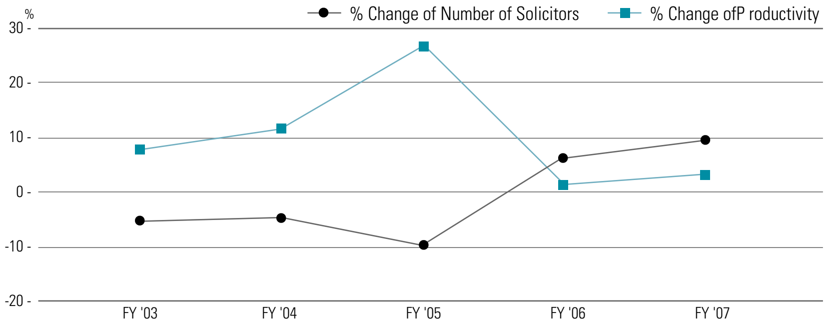
Table 22 Distribution

(Units: persons, million Won, %)

Classification	FY '03	FY '04	FY '05	FY '06	FY '07
Number of Solicitors	143,498	136,947	123,850	131,850	**144,324**
	(-5.0)	(-4.6)	(-9.6)	(6.5)	**(9.5)**
Productivity	351	392	496	504	**520**
	(8.0)	(11.7)	(26.5)	(1.5)	**(3.2)**

Note 1: Figures in parentheses indicate annual percent changes.
Note 2: Productivity is defined as premium income per solicitor.
Source: Insurance companies' monthly report, various issues, KIDI.

Figure 16 Solicitors and productivity change trend



Source: Insurance companies' monthly report, various issues, KIDI.

Table 23 Life insurance distribution channel trend

(Units: persons, %)

Classification	FY '03	FY '04	FY '05	FY '06	FY '07
Direct writers	26,172	25,412	26,033	26,868	**29,111**
	(-2.1)	(-2.9)	(2.4	(3.2)	**(8.3)**
Solicitors	143,498	136,947	123,850	131,850	**144,324**
	(-5.0)	(-4.6)	(-9.6)	(6.5)	**(9.5)**
Agents	7,211	6,672	10,290	9,746	**11,124**
	(-0.8)	(-7.5)	(54.2)	(-5.2)	**(14.1)**

Note: Figures in parentheses indicate annual percent changes.
Source: Insurance companies' monthly report, various issues, KIDI.

This page intentionally left blank.

Korean
Insurance
Industry
2008

Non-Life Insurance Industry

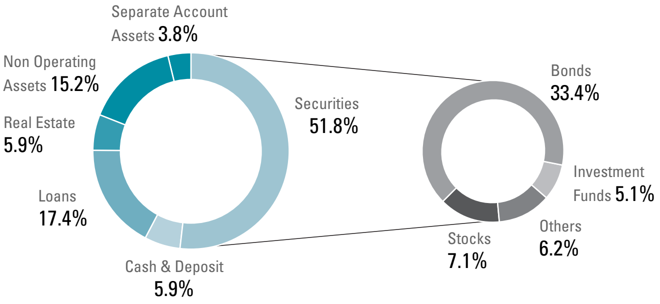
This page intentionally left blank.

Balance sheet

In fiscal 2007, total assets of the non-life insurance industry amounted to 66,015 billion Won with a 15.9 percent rise from the previous year. This fact is mainly due to high growth of long-term insurance premium reserve, a recovery in growth of automobile insurance and an increase in investment profit despite depressed underwriting profit.

Non-life insurer's current investment portfolio is comprised largely of financial instruments such as stocks, bonds, loans and investment funds. About 51.8 percent of non-life insurer's assets invested in securities in fiscal 2007. Bonds which take up a considerable part of securities accounted for 33.4 percent due to its stability. And the percentage invested in stocks increased to 7.1 percent from 6.7 percent in fiscal 2006 based on the settled stock market.

Figure 17 Investment portfolio in fiscal 2007



Note: Others= overseas securities + others.
Source: Monthly Insurance Report, KIDI.

Table 24 Balance sheet summary

(Units: billion Won, %)

Classification	FY '03	FY '04	FY '05	FY '06	FY '07
Assets					
Cash & Deposits	1,843	1,844	1,880	2,747	**3,872**
	(4.7)	(4.2)	(3.8)	(4.8)	**(5.9)**
Securities	20,546	23,194	26,470	29,915	**34,184**
	(52.9)	(53.4)	(53.7)	(52.5)	**(51.8)**
Stocks	2,904	2,887	3,921	3,838	**4,660**
	(7.5)	(6.6)	(8.0)	(6.7)	**(7.1)**
Bonds	12,457	14,914	18,217	20,106	**22,034**
	(32.1)	(34.3)	(37.0)	(35.3)	**(33.4)**
Investment funds	2,112	2,215	1,674	2,372	**3,367**
	(5.4)	(5.1)	(3.4)	(4.2)	**(5.1)**
Others	3,072	3,179	2,658	3,599	**4,123**
	(7.9)	(7.3)	(5.3)	(6.3)	**(6.2)**
Loans	6,789	7,667	8,488	9,952	**11,467**
	(17.5)	(17.6)	(17.2)	(17.5)	**(17.4)**
Real estate	3,249	3,376	3,535	3,609	**3,922**
	(8.4)	(7.8)	(7.2)	(6.3)	**(5.9)**
Non-operating assets	5,118	5,828	7,094	8,597	**10,039**
	(13.2)	(13.4)	(14.4)	(15.1)	**(15.2)**
Separate account assets	1,278	1,564	1,810	2,152	**2,531**
	(3.3)	(3.6)	(3.7)	(3.8)	**(3.8)**
Total assets	**38,823**	**43,472**	**49,277**	**56,971**	**66,015**
Liabilities					
Insurance reserve	26,993	28,658	32,361	38,032	**44,485**
Reserve for outstanding claims	3,427	3,402	3,472	4,004	**4,731**
Long-term insurance premium reserve	16,561	19,419	22,542	26,829	**31,857**
Unearned premium reserve	5,040	5,612	6,074	6,872	**7,539**
Catastrophe reserve	1,786	1,994	2,285	2,540	**2,848**
Other liabilities	4,695	4,365	5,413	5,829	**6,407**
Separate account liabilities	1,278	1,564	1,815	2,152	**2,563**
Total liabilities	**32,966**	**36,580**	**41,873**	**48,553**	**56,303**
Stockholder equity					
Capital stock	11,211	11,291	2,185	2,653	**2,880**
Capital surplus	1,278	1,113	9,796	1,116	**1,389**
Retained earnings	-7,859	-6,672	-5,695	3,634	**4,448**
Capital adjustment	1,226	1,159	1,122	1,014	**-270**
Total stockholder equity	**5,857**	**6,892**	**7,409**	**8,418**	**9,712**

Note: Figures in parentheses indicate percentage shares of total assets.
Source: Monthly Insurance Report, KIDI.

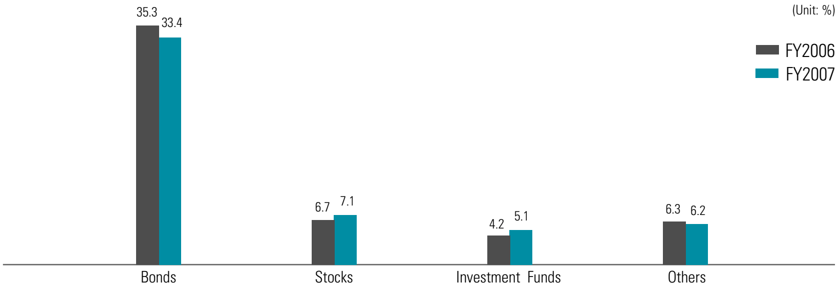
Loans accounted for 17.4 percent of total assets with 0.1 percentage point less than in the previous year. The proportion of loans has increased since fiscal 2000 due to relatively higher interest rate and the preference of less risky assets in the financial markets. The proportion of separate account assets was 3.8 percent, the same amount as in fiscal 2006.

The weighting of non-operating assets grew by a 0.1 percentage point over the previous year.

Insurance reserve of the non-life insurance industry in fiscal 2007 amounted to 44,485 billion Won with a 17.0 percent rise over the previous year. This is mainly due to a high growth rate of longterm insurance premium reserve ascribed by the sustained increase rate of long-term insurance. Long-term insurance reserve accounted for 71.6 percent of total insurance reserve.

The capital stock of the industry in fiscal 2007 increased by 8.6 percent over the previous year.

Figure 18 Securities portfolio in fiscal 2006 and 2007



Source : Monthly Insurance Report, KIDI.

The following diagram illustrates the division in investment portfolio among different assets. Even though the share of bonds in total assets decreased by 1.9 percentage points, that of stocks grew by 0.4 percentage points year-on-year. In fiscal 2007, bonds took up the largest share, followed by loans and stocks similar to the preceding year.

Direct premiums written

The total premium of non-life insurance industry in fiscal 2007 amounted to 33,992 billion Won with a growth rate of 14.9 percent over the previous year. Non-life business grew faster than GDP in fiscal 2007. The main reason for the rapid expansion was the growth of long-term insurance income.

Table 25 Direct premiums written by line

(Units: billion Won, %)

Classification	FY '03	FY '04	FY '05	FY '06	FY '07
Fire	316	294	324	313	**308**
	(1.5)	(1.3)	(1.3)	(1.1)	**(0.9)**
Marine	524	507	528	632	**652**
	(2.5)	(2.2)	(2.1)	(2.1)	**(1.9)**
Automobile	7,961	8,521	8,789	9,649	**10,810**
	(37.2)	(36.7)	(34.2)	(32.6)	**(31.8)**
Guarantee	942	902	1,007	1,143	**994**
	(4.4)	(3.9)	(3.9)	(3.9)	**(2.9)**
Casualty	1,806	2,036	2,284	2,485	**2,725**
	(8.4)	(8.8)	(8.8)	(8.4)	**(8.0)**
Title	1.4	2.2	6.4	13.7	**7.7**
	(0.0)	(0.0)	(0.0)	(0.0)	**(0.0)**
Overseas direct	62.8	79.6	60.9	82.3	**112.6**
	(0.3)	(0.3)	(0.2)	(0.3)	**(0.3)**
Long-term	8,579	9,635	11,256	13,680	**16,344**
	(40.1)	(41.5)	(43.8)	(46.2)	**(48.1)**
Private annuity	687	680	698	798	**1,000**
	(3.2)	(2.9)	(2.7)	(2.7)	**(2.9)**
Retirement	495	562	771	787	**1,039**
	(2.4)	(2.4)	(3.0)	(2.7)	**(3.1)**
Total	**21,374**	**23,219**	**25,724**	**29,583**	**33,992**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

Note: 1) Figures in parentheses indicate percentage shares.
2) Total includes the risk premium & loading of retirement and accompanying business.
Source: Insurance Statistics Yearbook, KIDI.

Most lines of insurance showed a similar growth rate over the previous year. The growth of long-term, private annuity and retirement insurance is faster than the overall premium growth. Even if automobile insurance premiums growth is less than total premium growth, it makes to move forward soundly.

Long-term insurance has grown rapidly owing to high demand for health insurance and a rapid growth in saving-type insurance through Bancassurance.

Long-term insurance premiums - including annuity and retirement pension amounted to 18,383 billion Won and accounted for 54.6 percent of total direct premiums written.

Meanwhile, the share of automobile insurance has decreased since fiscal 2000. In fiscal 2007, its market share dropped from 32.6 percent to 31.8 percent over the previous year due to the sustained growth of casualty and long-term insurance.

Fire insurance

In fiscal 2007, fire insurance premiums recorded 308 billion Won with a 1.6 percent decline compared to fiscal 2006.

The negative growth of fire insurance premium is explained by a shrinkage in construction investment and a reduction of premium rates.

Marine insurance

Direct premium written for marine insurance amounted to 652 billion Won increased by a 3.2 percent comparison to the year before.

An increase of insuring ships from abroad caused rising premiums of hull insurance by 10.2 percent. Direct premium written for cargo insurance increased by 8.3 percent owing to increased capacity and the arrival of larger container ships. On the other hand, the growth rate of aircraft insurance premiums decreased largely by 29.8 percent.

Automobile insurance

Direct premium written for automobile insurance increased by 12.0 percent to 10,810 billion Won from 9,649 billion Won in the previous year despite the price competition from online channel.

This premium growth is the result from an increase in premium rate and per unit premium according to the propensity to consume moving toward luxury cars despite the price competition from online channel.

Guarantee insurance

In fiscal 2007, guarantee insurance premium decreased by 13.0 percent over the previous year to 994 billion Won.

It is mainly due to a decrease in growth of mortgage credit insurance and gift certificate credit insurance premium income.

Casualty insurance

Casualty insurance recorded 2,725 billion Won with a 9.7 growth drop against the previous year. Its increase resulted from the high growth rate of accident insurance. The growth rate of accident recorded 19.0 percent compared to the previous year, and the liability and machine insurance increased by 1.8 percent and 5.1 percent, respectively.

Long-term and annuity insurance

Direct premium written for long-term insurance greatly increased by 19.5 percent to 16,344 billion Won from 13,680 billion Won in fiscal 2006.

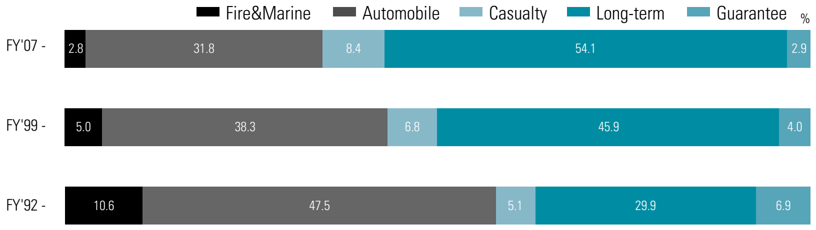
Despite the sluggish economy since the 1998 financial crisis, long-term insurance recorded sustainable growth in the non-life insurance industry. Long-term insurance has grown in non-life insurance premium for the last 6 years.

The high growth rate of direct premiums written for long-term insurance is attributed to constant demand for accident coverage, the expansion of new products such as convergence insurance, and continuous need for saving-type insurance through Bancassurance.

The share of long-term insurance including annuity and retirement pension increased to 54.1 percent from 51.6 percent in fiscal 2006.

The following chart illustrates changes in the proportions of direct premiums among different lines of non-life insurance for the last 15 years. It shows the higher growth of long-term and casualty insurance and the lower growth of automobile and guarantee insurance.

Figure 19 Direct premiums trends by line



Note : Casualty insurance includes title and overseas direct insurance.
Source : Monthly Insurance Report, KIDI.

Incurred losses

Incurred losses in non-life insurance increased by 14.2 percent over the previous year. This was mainly due to an increase in automobile insurance claims and long-term insurance reserve accompanied by growing sales of saving-type insurance.

The rate of this increase was higher than that of premium income. The growth rate of earned premium was 14.9 percent in fiscal 2007.

The incurred losses for automobile insurance totaled 6,955 billion Won with a 3.9 percent increase as a result of high growth rate of car accidents.

Losses incurred by long-term insurance recorded 13,330 billion Won with a 18.0 percent rise over the previous year.

Incurred losses for casualty insurance increased by a 32.1 percent to 1,470 billion Won from 1,113 billion Won in fiscal 2006.

Table 26 Incurred losses by line

(Units: billion Won)

Classification	FY '03	FY '04	FY '05	FY '06	FY '07
Fire	122	115	98	101	**119**
Marine	165	144	143	155	**212**
Automobile	5,679	5,528	6,114	6,691	**6,955**
Guarantee	357	192	23	192	**163**
Casualty	803	758	858	1,113	**1,470**
Overseas Direct	24	25	28	25	**25**
Long-Term	7,027	8,387	9,584	11,300	**13,330**
Annuity	837	841	878	1,000	**1,216**
Total	**15,013**	**15,990**	**17,726**	**20,577**	**23,490**

Source: Monthly Insurance Report, KIDI.

Investment income

Net investment profit of the non-life insurance industry increased by 19.2 percent to 2,670 billion Won from 2,240 billion Won in fiscal 2007. Losses from declining underwriting profit have offset Non-life insurer's gains from investments recently.

Total income and expenditure

In fiscal 2007, the non-life insurance industry recorded a net profit of 1,669 billion Won on the upgrade by 56.4 percent compared with the previous year. Over the past 3 years till fiscal 2006, there has been a gradual decline in underwriting profit while the net income of the fiscal 2007 has shown high profit. And the investment part has shown continuous growth till lately.

Net loss in underwriting in fiscal 2007 amounted to 213 billion Won. This loss resulted from an increase in loss ratio for automobile insurance despite the growth of long-term insurance premiums.

Table 27 Total income and expenditure

(Units: billion Won, %)

Classification		FY '03	FY '04	FY '05	FY '06	FY '07
Income	Underwriting	19,548	20,860	23,108	26,623	**31,232**
	Investment	2,306	2,532	2,636	2,856	**3,630**
	Other	671	763	927	1,275	**1,294**
	Total	**22,525**	**24,155**	**26,671**	**30,753**	**36,156**
Expenditure	Underwriting	20,156	21,229	23,626	27,466	**31,445**
	Investment	810	584	548	616	**960**
	Other	820	971	1,025	1,054	**1,422**
	Total	**21,786**	**22,783**	**25,199**	**29,136**	**33,826**
Net Balance	Underwriting	-608	-369	-518	-843	**-213**
	Investment	1,495	1,948	2,088	2,240	**2,670**
	Other	-149	-207	-98	220	**-128**
	Total	**739**	**1,372**	**1,472**	**1,617**	**2,329**
Tax		175	232	284	550	**660**
Net income/loss		564	1,139	1,187	1,067	**1,669**

Source : Monthly Insurance Report, KIDI.

Underwriting results

In fiscal 2007, underwriting losses of the non-life business amounted to 213 billion Won with a 630 billion Won recovery from the previous year. The decline was mainly due to a decline of losses in automobile by a lower car accident ratio.

Non-life insurer's earned-incurred loss ratio recorded 75.7 percent with a 2.9 percentage point decline from the previous year. This decrease in earned-incurred loss ratio is firstly due to a decline of the loss ratio in automobile. The second reason for this is that the loss ratios of guarantee and long-term insurance decreased as well.

In case of automobile insurance, earned-incurred loss ratio recorded 73.0 percent with a 6.0 percentage point decline over the previous year and this loss is on the decline (turnover) since the first quarter of fiscal 2006 caused by decrease in accident rate and wages for car repairs.

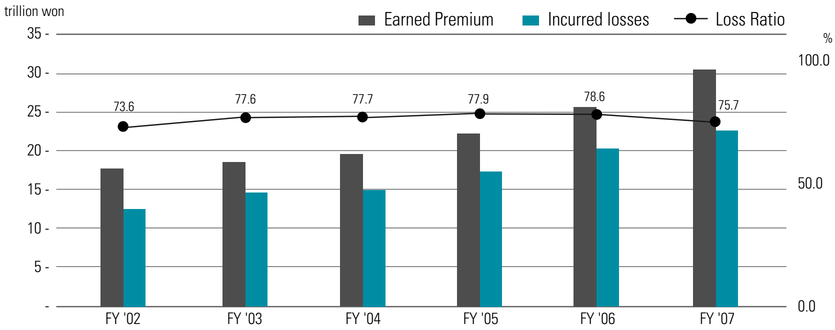
Table 28 Earned-incurred loss ratio by line

(Unit: %)

Classification	FY '03	FY '04	FY '05	FY '06	FY '07
Fire	61.7	56.4	40.9	39.6	**44.2**
Marine	57.7	49.5	52.0	52.1	**57.7**
Automobile	76.7	72.7	76.6	79.0	**73.0**
Guarantee	44.1	25.3	2.9	23.4	**19.5**
Casualty	57.8	52.1	51.6	55.3	**60.4**
Overseas Direct	47.5	41.0	52.4	44.7	**34.6**
Long-Term	82.4	87.9	86.4	83.9	**80.7**
Annuity	121.8	123.8	125.9	125.4	**121.7**
Total	**77.6**	**77.7**	**77.9**	**78.6**	**75.7**

Note: Retirement insurance excluded.
Source: Monthly Insurance Report, KIDI.

Figure 20 Loss ratio of non-life insurance



Source: Monthly Insurance Report, KIDI.

Management efficiency

The earned-incurred loss ratio for non-life insurance industry has increased continuously after the fiscal 2003. But loss ratio in fiscal 2007 recorded 75.7 percent rate a 2.9 percentage point drop from previous year. Most insurance lines, excluding automobile insurance, recorded a high loss ratio compared with the previous year. The loss ratio for marine insurance and casualty insurance showed a rise of just 5.6 and 5.1 percentage points over the last year, respectively. But, the expense ratio decreased from 23.8 percent in fiscal 2006 to 23.5 percent in 2007.

As a result, the combined ratio, which is the sum of loss ratio and expense ratio, was 99.2 percent with a 3.1 percentage point decrease compared with the fiscal 2006 and it is the lowest combined ratio in recent years.

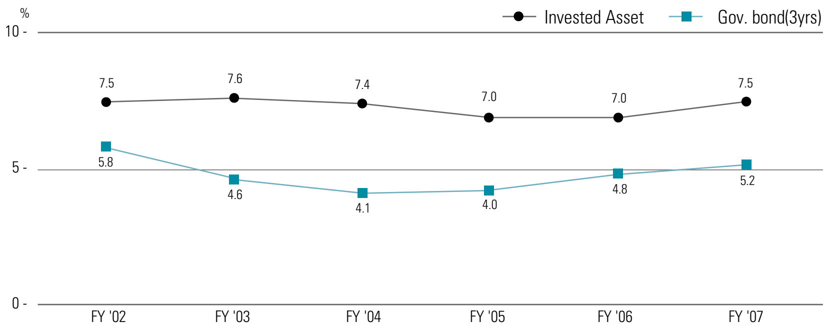
Table 29 Combined ratios

(Unit: %)

Classification		FY '03	FY '04	FY '05	FY '06	FY '07
Direct	Loss ratio	79.0	79.7	80.5	80.4	77.3
	Expense ratio	25.6	23.3	23.3	23.8	23.7
	Combined ratio	103.1	102.9	103.8	104.2	100.9
Guarantee	Loss ratio	44.1	25.3	2.9	23.4	19.5
	Expense ratio	10.3	20.5	21.3	21.5	17.8
	Combined ratio	54.4	45.8	24.2	44.9	37.4
Total	Loss ratio	77.6	77.7	77.9	78.6	75.7
	Expense ratio	24.3	23.2	23.2	23.8	23.5
	Combined ratio	101.9	100.8	101.1	102.3	99.2

Source : Monthly Insurance Report, KIDI.

Figure 21 Yield on invested asset



Source : 1) Monthly Insurance Report, KIDI.
2) Government bond (3yrs) is quoted from www.bok.or.kr

In fiscal 2007, investment yield in the non-life insurance industry recorded 7.5 percent with a 0.7 percentage point rise over the previous year. It is due to continuous high interest rates and stock market developed strength in fiscal 2007.

Distribution

Market share by distribution channel

The market share for traditional channels such as solicitor and agent has taken 80.1 percent of total premium and these channels dominate the non-life insurance market but the proportion of premiums collected by them decreased by about 0.1 percentage point over the previous year. A drop in proportion of premiums collected by agents and solicitors is due to the growth of new distribution channel such as bancassurance. Also, the number of solicitorts in the non-life insurance market has decreased gradually for years.

The proportion of premiums collected by bancassurance accounted for 5.2 percent with a rise of 0.5 percentage points compared to fiscal 2006. Bancassurance in the non-life business has expanded to saving-type and comprehensive insurance.

In case of automobile insurance, online market has expanded in recent years and its market share is getting bigger. The share of online channel in automobile insurance recorded about 17.3 percent with a rise of 3.9 percentage points compared to fiscal 2007.

Table 30 Market share by distribution channel

(Units: billion Won, %)

Year	FY '03	FY '04	FY '05	FY '06	FY '07
Company employees	2,633	2,776	3,309	4,082	**4,527**
	(12.3)	(12.0)	(12.9)	(13.8)	**(13.3)**
Solicitors	7,474	8,080	9,004	10,282	**11,343**
	(35.0)	(34.8)	(35.0)	(34.8)	**(33.4)**
Agents	10,837	11,547	12,154	13,437	**15,872**
	(50.7)	(49.7)	(47.2)	(45.4)	**(46.7)**
Insurance pool	173	147	132	140	**179**
	(0.8)	(0.6)	(0.5)	(0.5)	**(0.5)**
Brokers	181	214	287	251	**288**
	(0.8)	(0.9)	(1.1)	(0.8)	**(0.8)**
Bancassurance	81	454	837	1,391	**1,772**
	(0.4)	(2.0)	(3.3)	(4.7)	**(5.2)**
Total	**21,378**	**23,219**	**25,722**	**29,583**	**33,982**

Note: Retirement insurance is included. Company employees include TM/CM
Source: Monthly Insurance Report, KIDI.

Solicitors and insurance agents

At the end of fiscal 2007, the number of solicitors in the non-life insurance industry totaled 71,423 with only a 2.7 percent drop over the previous year. This trend is due to professionalizaton and specialization of the solicitors and distribution channel developed to more diverse and more effective structure.

The number of agents decreased by 4.4 percent to 42,311 from 44,275 in fiscal 2006. This continuous decline in the number of agents resulted from reduction as part of reconstructuring and performance improvement.

Table 31 Solicitors and insurance agents

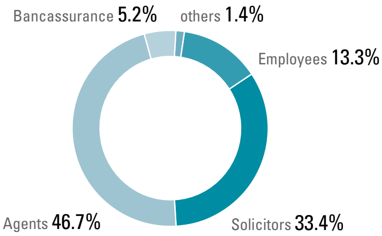
(Units: persons, %)

Classification		FY '03	FY '04	FY '05	FY '06	FY '07
Solicitors	Number	60,178	61,539	72,116	73,408	**71,423**
	Growth rate	10.8	2.3	17.2	1.8	**-2.7**
Agents	Number	44,807	45,953	45,646	44,275	**42,311**
	Growth rate	-11.9	2.6	-0.7	-3.0	**-4.4**

Source : Monthly Insurance Report, KIDI.

The following chart shows the market share of distribution channels in the non-life insurance. Agents took up the largest share, followed by solicitors and company employees.

Figure 22 Market share by distribution channel in fiscal 2007



Note: Retirement insurance is included.
Source: Monthly Insurance Report, KIDI.

This page intentionally left blank.

Korean
Insurance
Industry
2008

Appendix

Profiles of insurance companies
Life insurance companies
Non-life insurance companies

Websites
Life insurance companies
Non-life insurance companies
Related organizations

This page intentionally left blank.

Profiles of insurance companies

Life insurance companies

(Units : billion Won)

Company	Date of establishment	Paid-in capital	Premiums	Total assets	Number of employees
Korea	Sep. 1946	3,550.0	11,242	45,495	4,872
Allianz	Dec. 1954	12.0	2,908	10,606	1,648
Samsung	May 1957	100.0	20,863	116,379	6,545
Heungkuk	May 1958	60.5	2,249	7,196	480
Kyobo	Aug. 1958	102.5	10,478	46,166	4,351
Shinhan	Apr. 1989	200.0	2,580	7,699	982
Dongbu	Apr. 1989	85.2	1,093	3,074	500
Tong Yang	Apr. 1989	437.5	2,448	8,012	667
MetLife	Jun. 1989	125.7	2,490	6,623	595
PCA	Jun. 1990	217.9	1,185	2,060	485
New York	Jul. 1990	137.5	155	443	200
LIG life	Feb. 1988	30.0	365	1,380	184
Kumho	Apr. 1988	296.2	2,319	6,692	902
Mirae Asset	Mar. 1988	463.4	3,134	8,395	1,648
KB	Apr. 2004	70.0	589	1,343	150
Prudential	Jun. 1989	80.0	1,237	4,735	529
ING	Sep. 1991	78.0	4,586	13,135	1,208
Hana	Feb. 1988	40.2	324	949	139
LINA	Apr. 1987	34.9	662	985	300
AIG	May. 1987	117.2	2,158	5,136	636
SH&C	Oct. 2002	30.0	861	1,378	120
GreenCross	Apr. 2003	103.3	483	1,822	423

Note : As of the end of fiscal 2007
Source : Financial Supervisory Service

Non-life insurance companies

(Units : billion Won)

Company	Date of establishment	Paid-in capital	Direct premiums	Total assets	Number of employees
Meritz	Oct. 1922	61.9	2,534	4,565	2,100
Hanwha	Apr. 1946	152.4	938	1,497	1,186
Lotte	May 1946	42.1	851	1,210	1,100
Green	Feb. 1947	71.6	691	1,029	923
Heungkuk Ssangyong	Mar. 1947	169.4	1,004	1,176	735
First	Mar. 1949	133.9	1,086	1,617	1,550
Samsung	Jan. 1953	26.5	9,161	20,741	5,440
Hyundai	Mar. 1955	44.7	5,027	8,492	2,870
LIG	Jan. 1959	30.0	4,217	7,306	2,627
Dongbu	Mar. 1962	35.4	4,707	8,106	3,739
KyoboAxa	Sep. 2001	129.0	519	411	1,321
Seoul Guarantee	Feb. 1969	1,354.1	995	4,736	1,129
Korean Re	Mar. 1963	56.0	1.4	3,533	268
AHA	Apr. 1968	157.6	346	222	422
Mitshui Sumitomo	Oct. 2002	35.5	6.4	49	33
ACE	Apr. 1985	31.1	136	62	103
Federal	Jul. 1992	3.0	8.3	62	34
Educar	Nov. 2003	70.0	203	206	505
ERGO Daum Direct	Jun. 2003	100.6	257	229	651
Hyundai Hicar	Feb. 2006	80.0	255	222	546
First American K.B	Jul. 2001	4.9	4.9	7	10
Swiss Re K.B	Jul. 2001	17.0	-	230	25

Note : As of the end of fiscal 2007
Source : Financial Supervisory Service

Websites

Life insurance companies

Company	Homepage
Korea Life Insurance Co., Ltd.	www.korealife.com
Allianz Life Insurance Co., Ltd.	www.allianzfirstlife.co.kr
Samsung Life Insurance Co., Ltd.	www.samsunglife.com
Heungkuk Life Insurance Co., Ltd.	www.hungkuk.co.kr
Kyobo Life Insurance Co., Ltd.	www.kyobo.co.kr
Shinhan Life Insurance Co., Ltd.	www.shinhanlife.co.kr
Dongbu Life Insurance Co., Ltd.	www.dongbulife.co.kr
Tong Yang Life Insurance Co., Ltd.	www.myangel.co.kr
MetLife Insurance Company of Korea., Ltd.	www.metlifekorea.co.kr
The PCA Life Insurance Co. Ltd.	www.pcakorea.co.kr
New York Life Insurance Co. Ltd.	www.nyli.co.kr
Wooriaviva Life Insurance Co., Ltd.	www.wooriaviva.com
Kumho Life Insurance Co., Ltd.	www.kumholife.co.kr
Mirae Asset Life Insurance Co., Ltd.	www.miraeassetlife.com
KB Life Insurance Co., Ltd.	www.kbli.co.kr
The Prudential Life Insurance Company of Korea Ltd.	www.prudential.co.kr
ING Life Insurance Co., Ltd.	www.inglife.co.kr
Hana HSBC Life Insurance Co., Ltd.	www.hanahsbclife.co.kr
Life Insurance Company of North America	www.lina.co.kr
American International Assurance Korea	www.aiglife.co.kr
SH&C Life Insurance Co., Ltd	www.shnc.co.kr
Green Cross Life Insurance Co., Ltd.	www.healthcare.co.kr

Non-life insurance companies

Company	Homepage
Meritz Fire & Marine Insurance Co., Ltd.	www.meritzfire.com
Hanwha Non-Life Insurance Co., Ltd.	www.hwgeneralins.com
Lotte Insurance Co., Ltd.	www.lotteins.co.kr
Green Non-Life Insurance Co., Ltd.	www.greeninsu.com
Hungkuk Ssangyong Fire & Marine Insurance Co., Ltd.	www.insurance.co.kr
First Fire & Marine Insurance Co., Ltd.	www.firstfire.co.kr
Samsung Fire & Marine Insurance Co., Ltd.	www.samsungfire.co.kr
Hyundai Marine & Fire Insurance Co., Ltd.	www.hi.co.kr
LIG Fire & Marine Insurance Co., Ltd.	www.lig.co.kr
Dongbu Insurance Co., Ltd.	www.idongbu.com
KyoboAXA Auto Insurance	www.kyobo-axa.co.kr
Seoul Guarantee Insurance Co., Ltd.	www.sgic.co.kr
Korean Reinsurance Co., Ltd.	www.koreanre.co.kr
American Home Assurance Korea	www.aiggeneral.co.kr
Mitshui Sumitomo Insurance Co., Ltd.	www.ms-ins.co.kr
ACE American Insurance Company Korea Branch	www.n-ins.com
Federal Insurance Company Korea	www.chubb.com
Educar	www.educar.co.kr
First American Title Insurance Company	www.firstam.co.kr
ERGO Daum Direct	www.ergodaumdirect.co.kr
Hyundai Hicar Direct Auto Insurance Co, Ltd	www.hicardirect.com
Swiss Re Korea Branch	www.swissrekorea.com

Related organizations

Organization	Homepage
Ministry of Strategy and Finance	www.mosf.go.kr
Financial Supervisory Commission	www.fsc.go.kr
Financial Supervisory Service	www.fss.or.kr
Korea Deposit Insurance Corporation	www.kdic.or.kr
Korean Fire Protection Association	www.kfpa.or.kr
Korea Life Insurance Association	www.klia.or.kr
General Insurance Association of Korea	www.knia.or.kr